

DELTA CHI

BRIEF

1845 - "Occupation of the first fraternity house. University of Michigan. It was an abandoned log cabin, out of town, used only as a rendezvous after the President of the University had ordered dissolution of the chapter." So began what is now a mainstay of the college fraternity system at a majority of campuses.

Look at what a house may represent to a chapter: Historically, chapter houses have provided living quarters for students away from home. The house provides a meeting place for formal and informal gatherings, which may range from weekly business meetings to social functions to formal initiations. The house is also used as a lounge for relaxing, studying, and socializing. Meals are served in many houses, which creates another benefit of chapter housing. Today, fraternity housing occurs in a variety of forms. "Traditional" fraternity houses, apartments, residence halls and lodges are the most common. Competitive housing can be any of these, depending on the campus. Regardless of a chapter's housing stage, a house corporation is needed not only to deal with the current state of affairs but also to facilitate proper planning for future housing needs. An organized and functioning house corporation will more likely be in a position to properly meet opportunities (i.e., purchase of a house) as they occur. Many positive things can happen when proper preparation meets opportunity.

Every chapter that has or plans to have housing should have a house corporation to manage its housing affairs. Where a chapter is planning to purchase or construct housing, a house corporation with talented and interested members can locate property, arrange financing, and handle the numerous details that such a project involves. The house corporation must have an owner's interest in any real property acquired for the chapter and should be the lessee on any rental property. If a chapter is renting, a local house corporation can negotiate lease terms with the owner of the property in order to insure a clear understanding between the owner and the chapter regarding such matters as rental payments, responsibilities for repairs, or even an option agreement should a purchase be desired

in the future. In addition, the house corporation can solicit the continued support of alumni members and /or local community businessmen for the chapter. It can coordinate alumni fund- raising projects that are almost always far more successful than similar projects attempted by the undergraduate chapter itself.

In addition to the involvement of parents, faculty members, local businessmen, and of course alumni, the composition of a house corporation should have a blend of experience and age. Youth has the enthusiasm and energy to undertake some big tasks, while age and experience are vital ingredients to tempering and channeling the enthusiasm and capitalizing on it. Your chapter's young alumni must be given responsibilities and the opportunity to grow into leadership positions on the house corporation, but they need the guidance of men with experience. This mix of ages will not only provide stability but will also promote a degree of continuity.

The ability of alumni to remain involved is influenced by many factors. Additions to the family, career changes, job promotions, relocation, and retirement are some of the more common. These factors will result in a natural turnover, which will create the opportunity to bring in new and enthusiastic members to serve on the board. This will supply a constant source of renewed vitality and a fresh perspective.

To own a house is a source of great pride and responsibility for many fraternity chapters. How is a house corporation formed? Should it be incorporated? What are its responsibilities? How should a chapter house be owned and controlled? What are its tax requirements? These are frequently asked questions this **BRIEF** will assist in answering. It will also serve as a guide for all house corporations to follow regardless of their housing stage or operating level.

This House Corporation **BRIEF** is intended for informational and general advice purposes only and does not constitute legal advice. A competent attorney should be contacted regarding specific legal questions or questions about the applications of the guidelines to a particular situation.

SECTION I: GETTING PEOPLE TO HELP

To get a house corporation up and running, you need people. If you already have some people involved - great! The best way to get more is through personal, face-to-face contact. If you are starting from scratch, here are some ideas that should help.

First, seek out a group of interested alumni, parents and friends who may be willing to serve as members of the corporation. All too many times the search is restricted only to alumni of the chapter being served or Delta Chi alumni. Uninitiated men who are on faculty or are employers of some of the current chapter members have been excellent contributors and many have gone on to be initiated. Alumni of other fraternities that do not have a chapter on campus as well as mothers or fathers have all proven critical to the success of many house corporations. You might wish to focus on local businessmen and parents who are experienced in such areas as real estate, accounting, banking, insurance and law. These people frequently lend critical knowledge and greater depth of experience to the board. Failing to reach out to these potential members and bemoaning the lack of interest is simply shortsighted. Again, personal contact is the best way to approach a person.

A letter to area Delta Chi alumni announcing plans to form a house corporation is the second best way to go but you should make every effort to establish the best house corporation board that you are able. An alumnus should write the letters that are sent to other alumni. Generally, letters sent to alumni by an alumnus will receive better results than those sent by an undergraduate. Mailing labels and a computer printout of addresses for alumni are available from Delta Chi's Headquarters. These alumni lists can be provided by geographic area and/or by chapter. Allow approximately ten days to receive the listings after the order is received. Please specify the zip codes of the area you want covered.

It is a good idea to enclose self-addressed, postage-paid reply cards with your letters to the alumni. A response will then be more likely because of the convenience of the reply card. It is hoped that highly interested alumni will surface as a result of the first letter. Do not expect the reply to your first letter to be dramatic, but it will create an awareness of the proposed formation of the house corporation. Often a second letter or, better yet, a phone call is required to impress upon the alumni the sincerity of the group to form an active house corporation. After the alumni see a sincere effort put forth by the chapter and other alumni and advisors, they will be more likely to get involved.

Answer all replies immediately with a thank you note from the key alumnus or at least the "BB" or faculty advisor. Send all interested alumni an invitation to the organizational meeting. (REMEMBER: give at least four to five weeks notice!) A get acquainted function just prior to the meeting will prove to be beneficial, because many of the attending members may not know each other. This function, followed by the meeting, can be as elaborate as a dinner at a local country club or as casual as a barbecue at the home of a local alumnus.

About ten days before the function, send a reminder to those invited. When possible, have an alumnus phone or drop by their houses personally to confirm their attendance. It is much harder for an alumnus to say "no" when a fellow alumnus is standing in front of him. Alumni recruitment should be done by alumni. It is unfair to expect an undergraduate to be effective in alumni recruitment. We all relate to our peers much better than to others. Use an impressive and persuasive alumnus to recruit the house corporation members. He will be far more effective.

Undergraduates should not be considered for membership on the corporate board. However, the board should work closely with the undergraduate officers to receive their input. Aristotle recognized that things seem to work better when people who suffer the consequences of decisions are close to the ability to make the decisions. Unfortunately, the practice of having undergraduates control the real estate has the flaw that these people often are not around to bear the long-term consequences of their decisions. In addition, undergraduates usually do not have business expertise and at times do not receive the same degree of respect in business negotiations that their elders often receive.

Members of the Alumni Board of Trustees may serve on the house corporation. However, this "double duty" is not recommended for two reasons. First, the individual may become overworked and be unable to adequately fulfill both roles or may simply withdraw completely from his commitment because of burnout. Second, the relationship with the chapter is different for the house corporation and the ABT. The two boards should work closely together, but each has responsibilities and problems unique to itself. The ABT has a wide spectrum of responsibilities and goals in relationship to the chapter (see *Alumni Board of Trustees BRIEF*), while the house corporation's sole relationship to the chapter is one of landlord to tenant (see **Section V**). This difference between the two boards may cause problems for a member serving on both boards in his relationship with the chapter because of the confusion created by the opposing roles he must often uphold.

A good number of directors to choose for the house corporation's board is seven or fewer. With more than seven members, the sense of individual responsibility becomes diluted, and absenteeism can result in the board's inability to reach a quorum. Perhaps an ideal number is five directors. This is large enough to provide diversity of opinion and to spread the workload yet small enough to provide a group that is able to assemble a quorum when necessary.

The board of directors is chosen from the membership of the corporation and is given the authority and power to make decisions as deemed necessary. The directors can be elected to serve two- or three-year staggered terms on a rotating basis. The officers of the corporation are elected from and by the directors. Frequency of meetings varies according to need. Normally, the membership meets once per year to discuss the previous year's activities and to elect new directors. Homecoming tends to be a common time for this meeting. The board of directors generally meets each semester or quarterly but may need to meet more often during special circumstances such as a major fund-raising campaign or a house renovation or addition. The membership should be invited to attend all board meetings and be updated on corporation activities by a newsletter. The members may also be called upon by the directors to serve on committees and to help when needed, such as during a major fund-raising campaign. Dues may also be charged to house corporation members. The proceeds can be used for the corporation newsletter or can be placed in the fund for future housing.

After a group of potential directors is identified, a meeting should be held. At this meeting the responsibilities and duties of the members who will serve as directors should be outlined and the purpose of the corporation discussed. Be sure to consult an attorney, since certain legal formalities are required at an organizational meeting. This will avoid what otherwise might be a wasted first meeting.

Once a group has formed, an attorney will have to draft and submit to the Secretary of State (or equivalent office in your state or commonwealth) an application for a certificate of incorporation and a set of proposed by-laws for the corporation. If the chapter had a house corporation at one time but the corporation is now dormant, an attorney or house corporation officer should check with the Secretary of State to determine what is necessary to get the house corporation reactivated with new members and officers. Once it is recognized by the state, the house corporation should check with its attorney to see for which exemptions it needs to apply. In some states, an Internal Revenue Service exemption letter leads to automatic exemption from state taxes. House corporations are exempt from corporate income taxes in most states and from property taxes in a select few. Exemption from federal income taxes must be applied for and an Employee Identification Number should be obtained. A good alternative (in the United States) is to become a subordinate of the Delta Chi National House Corporation. This automatically grants your house corporation 510 (c)7 tax status without the often costly and time consuming process of applying for tax exempt status directly. (See **Addendum B** for details.) **But you need to incorporate first.**

SECTION II: INCORPORATION OR RE-FORMATION

If you are starting from scratch where there has never been a prior house corporation, don't just call yourself a corporation - be one! We have seen situations where individuals have started what they have called a house corporation without actually incorporating. This will certainly lead to disaster.

WHY INCORPORATE?

The benefits of corporate status far outweigh the additional paperwork required. In terms of dealing with tort liability, tax liability, business continuity, and management, there is no substitute for incorporation. Unincorporated associations are not usually allowed to contract under state law or to hold title to real property. For these reasons, chapters having houses located on private property should organize a title-holding corporation (commonly called house corporation) for the purpose of holding title to and financing the chapter's real and personal property. Even in those extremely rare instances where the collegiate chapter is itself incorporated, a separate house corporation should be organized in order to separate the collegiate chapter functions from property management.

The creation of any corporation is wholly governed by the laws of the state in which the corporation is to exist. Thus, a competent attorney well-versed in laws regarding corporations is required. This section covers an area of the law of corporation on which little has been written (i.e., the law governing not for profit and non-stock corporations). Due to a lack of uniformity among state laws, only a general treatment is possible here.

The primary source of the law in this area is the statutory law of each state. In most states, there are statutory provisions especially applicable to not for profit corporations. The following questions should be considered when reviewing these statutes.

1. Is the corporation governed by a general statute relating to not-for-profit corporations?
2. In the absence of a general statute, or in addition to such a general statute, is the corporation to be created governed by a statute governing fraternal corporations? (For example, a Washington statute governs Fraternal Building Corporations.)
3. Does the governing statute require approval of the corporate charter by a court or by some state officer or board?
4. Are there any statutory provisions governing corporations in general that are equally applicable to not for profit corporations (some statutes provide that not for profit corporations shall be covered by the act relating to corporations generally except as specifically otherwise provided)?

ARTICLES OF INCORPORATION

Matters to be included in the articles of incorporation are generally listed in the governing state statute. It will also state a requirement that the articles include a statement of the purpose or purposes for which the corporation is organized. The purpose(s) should be consistent with that described in the by-laws. The governing statute sometimes dispenses with the necessity of setting forth in the articles any of the corporate powers enumerated in the statute. Some statutes require a statement that the corporation is not formed to make a profit or pecuniary gain. If legally permissible, the life of the corporation should be perpetual.

In addition, the statute will generally provide that the powers of the not-for-profit corporation are to be exercised by a governing body called either a board of directors or a board of trustees. Commonly, the names of the initial members of this board must be included in the charter with a provision that subsequent members of the board will be elected by the general membership of the corporation. However, some states permit corporations with no membership. Generally, powers granted to a board governing a not-for-profit corporation are much broader than the powers granted to the board of a for-profit corporation, although some statutes require a vote of the members before the board can purchase, sell or lease real property or amend its charter.

The statute will generally provide for an annual meeting of the members of the corporation. Annual reports filed with the Secretary of State are generally required as is the presentation of a complete report of the preceding year's operation to the annual meeting of the corporate members.

In most states the title of the corporation must indicate that it is a corporation. State statutes governing not for profit organizations usually provide for a simple form of the articles of incorporation and leave the method of conducting corporate activities to be provided in the by-laws of the corporation.

BY-LAWS

Before drafting the by-laws, by-laws of similar local house corporations of other fraternity chapters (Delta Chi or otherwise) established in the state should be checked in order to help insure that all required and recommended provisions are included. In addition, the by-laws should be drafted in a way that will allow exemption from federal income tax and, where possible, state and local income and property taxes.

No one draft of by-laws is applicable in all states; therefore a sample set has not been included. Be sure to consult an attorney to make sure the by-laws are drafted in accordance with necessary provisions. Even so, there is still a draft set of Articles (in the United States) for those house corporations which choose to be a subordinate of the Delta Chi National House Corporation. (See **Addendum B**)

RE-FORMATION OF A PREVIOUSLY EXISTING HOUSE CORPORATION

The re-formation of a house corporation is a relatively easy task. First, find out whether or not a "house corporation," as such, has previously been organized by your chapter as a legal entity recognized by the state.

If a house corporation has existed in the past, then there is a good possibility that the "Articles of Incorporation" or some other document may be found. Start by looking through the chapter files or contacting alumni who had previously been involved. Perhaps a local chapter advisor or older alumnus could assist in locating it. If these attempts are unsuccessful, write to the Executive Director of the Fraternity. He may be able to furnish you with a copy if it is on file at the International Headquarters. In addition, some states provide computerized searches of their files at no cost, if you know the name of the corporation or its process agent.

If the incorporation papers are found, their current validity must be verified. Write a brief letter to the Secretary of State (or the equivalent office in your state or commonwealth). In writing, include the chapter address (and a former address in the case of a recent chapter house relocation) and the name of the chapter (Greek words not Greek letters) or old name of the house corporation. Also request a "Certificate of Extension" in case the corporation is not legally operable, and an "Application for Incorporation" in case there was no previous existing house corporation. The Secretary of State, complying with this request, should outline the procedures that are necessary for the re-formation of a house corporation.

If the house corporation charter is expired, then the Certificate of Extension should assist in re-filing and resuming its validity. Usually, all that is necessary is to file a list of names and addresses of current officers, pay a filing fee and possibly submit an updated annual report and/or financial records for unreported years.

If the house corporation is currently in existence, ask for a certified copy of the Articles of Incorporation. You may need this document to show a lender that your corporation is a valid and existing nonprofit corporation. Also, check to make sure the tax exemption status has been maintained.

Even in the case of re-establishing a previously existing house corporation or, for that matter, in the case of an on-going house corporation, the opportunity still exists (in the United States) to become a subordinate of the Delta Chi National House Corporation. (See **Addendum B**)

SECTION III: OFFICER RESPONSIBILITIES

The officers of the board of directors of a house corporation have duties corresponding to those with the same titles in other organizations. Their basic duties are listed below but are not limited to the following:

PRESIDENT

- a. Be the chief executive officer of the corporation.
- b. Preside at all meetings of the board.
- c. See that all orders and resolutions of the board are carried out.
- d. Find replacements to fill vacancies in the board when they occur.
- e. Submit to the board an operations report of the corporation at year's end.
- f. Appoint all standing committees of the house corporation.
- g. Perform such other duties as may be determined by the directors.

VICE PRESIDENT

- a. Exercise the powers ordinarily exercised by the president in the event of his absence.
- b. Assist the president as needed.
- c. Be an ex-officio member of all standing committees.
- d. Perform such other duties as may be determined by the directors.

SECRETARY

- a. Record all votes and minutes of meetings
- b. Maintain the membership roster of the corporation.
- c. Give, or cause to be given, notice of all meetings of the board.
- d. Be the keeper of the seal and affix the seal of the corporation to such instruments as necessary.
- e. Attest to the signatures of the president or vice president on documents.
- f. Perform such other duties as may be determined by the directors.

TREASURER

- a. Supervise the collection of monies payable to the corporation.
- b. Have custody of all monies of the corporation and deposit them in a bank or trust company designated by the board of directors.
- c. Have the duty, together with any other officer or officers designated by the board, to countersign all checks, drafts, notes or orders for the payment of money.
- d. Work with the outside accountant and auditor.
- e. Obtain a fidelity bond for his position (paid for by the corporation), for a sum determined by the board of directors. It is recommended that the sum be based on the amount of corporate assets to which the treasurer has access.
- f. Keep accurate accounts of the finances of the corporation, which shall be open for inspection and examination by the directors and by any committee appointed for such inspection, and when requested, give a report on these accounts at meetings of the corporation and/or board of directors.
- g. Submit the books periodically, but not less frequently than annually, for audit by the board or a designated outside auditor.
- h. Prepare, or have prepared, returns as are required by federal, state or local authorities.
- i. Perform such other duties as may be determined by the directors.

**SECTION IV:
RESPONSIBILITIES
House Corporation and Chapter**

Perhaps the most important responsibility the house corporation and chapter have is to maintain a clear, open and honest working relationship with each other. They are working together for the betterment of each individual within the chapter and for the improvement of Delta Chi in general. Those goals benefit neither the undergraduates nor the alumni if they are not understood, accepted and outwardly serving as a guide.

There will be times of disagreement; however, without them re-evaluation and improvement would occur at a slower pace.

The house corporation's sole relationship to the chapter is one of landlord to tenant. Therefore, the corporation must operate as a business. Failure to do so will be detrimental to the current and future housing of the chapter. The house corporation is an influential entity that gives a chapter strength, stability, and continuity. Perpetual planning is essential. With these goals in mind, both the alumni and undergraduates may establish some guidelines and assume responsibilities. The following list of responsibilities is NOT ranked in order of importance. The order of importance will vary with each house corporation and chapter and will continually change as the chapter evolves through various stages of housing.

RESPONSIBILITIES OF THE HOUSE CORPORATION

- develop strategic long range housing plans
- determine priorities for chapter house maintenance/improvements
- develop pro-active vs. reactive measures
- establish timetables for implementation of plans
- develop a commitment to carry out plans
- familiarize new board members with goals and objectives
- plan for the recruitment and replacement of board members
- act as a titleholder for the property
- serve as a landlord to the undergraduate chapter
- secure a room contract and security deposit from each occupant
- require all delinquent paying members to sign promissory notes
- meet requirements of the college or university
- inspect and maintain the property to see that it meets fire, safety, health and building codes
- collect and disburse funds in a reasonable time framework
- obtain property and liability insurance
- determine and carry out capital improvements
- establish continuity to insure perpetuation of the chapter
- maintain the equipment and furnishings in suitable condition and be primarily responsible for the physical maintenance of the property
- maintain complete records of insurance, taxes and mortgage debt payments
- formulate a base from which to draw alumni support
- file Form 990 and 990T (if necessary)

RESPONSIBILITIES OF THE CHAPTER

- pay rent to the house corporation on time
- assist in the collection of rent and parlor fees
- assist in securing a room contract and security deposit from each occupant
- respect the chapter house and furnishings
- perform maintenance agreed to with house corporation
- respect, develop and maintain good relations with the neighbors, university and community authorities
- alert the corporation officers to any problems or acts of misconduct
- require all proposed alterations, modifications or improvements to fraternity property to be approved by the house corporation prior to any work being started
- operate the chapter house in accordance with all local, state, and federal laws, university regulations, and the guidelines set forth by the FIPG Risk Management Policy

- submit to the board of directors all suggestions, complaints, or general comments concerning the fraternity property or its affairs
- correct all damages to the house or property and make certain that those responsible reimburse the chapter
- maintain a clean house, check for hazards, and adequately secure the property before all school _ and summer breaks

SECTION V: HOUSING CONTRACTS

There is a wide variety of forms regarding housing, including housing contracts, on the Fraternity's website: www.deltachi.org. Click on "Resources" and then "Housing Information."

The fraternity housing contract is a written agreement that prescribes legal obligations and conditions for a member living in the fraternity house. Standard fraternity housing contracts are considered lease agreements. The lease agreement provides a specific term of occupancy and the conditions for the termination of the agreement.

One purpose of a house corporation is to have a legal entity that can hold title to real property and to separate the management of property from the operation of the collegiate chapter. There are certain unique relationships between a house corporation and the chapter. It is best to spell out these relationships in a contract between these two groups. This should specify that the house corporation is providing a house for the chapter's use. The contract should recite the mutual obligations of both parties in connection with the maintenance and operation of the house. Similarly, there should be a rental agreement in writing between the house corporation and each of the individual residents of the house. If the contract between the chapter and the house corporation gives the chapter control over rental arrangements, then the contract of each resident would be with the chapter. It is wiser to have the individual rental agreements directly with the house corporation and the individual members as well as an umbrella contract between the chapter and the corporation.

PRIMARY PROVISIONS OF A HOUSING CONTRACT

There are certain basic conditions that should be included in any standard fraternity housing lease:

- the names of the parties, e.g., the member and the corporation
- the address of the property
- the duration of the agreement
- the amount of rent (and board if applicable)
- signatures of both the member and the agent for the corporation (or chapter), e.g., treasurer or president

Whenever possible, the rent and board charges should be separated to facilitate a clear understanding of accurate housing costs with the members and to assist the chapter when special conditions arise. An example of when the separation of costs becomes helpful is whenever a member cannot have meals or only has board with the chapter.

A contractual agreement/relationship between the house corporation and each individual member, resident and non-resident, is also advised. Since all members will be using the housing facility, it is recommended to charge parlor fees for the non-residents for their use of the property.

The rent and board provision should outline any fines or discounts for late or early payment and any other procedures for collection of delinquent accounts receivable. If the college has a policy whereby the college will restrict future enrollment of fraternity members with delinquent chapter accounts, the policy must be included in the contract to protect the college.

The period of time for occupancy should be clearly stated and enforced. Because almost all fraternity housing contracts will follow the academic calendar of their college, the contract may refer to a semester or term without providing specific dates. The more definite the conditions of the contract, the fewer the misunderstandings and the disputes that will occur in the enforcement of the agreement.

OTHER CONDITIONS OF A HOUSING CONTRACT

A contract may include a variety of other minor conditions to avoid misunderstandings.

Damage and Damage Deposits - The track record for male college students on damage to their fraternity houses suggests that this subject be carefully and fully covered to adequately meet those anticipated expenses. The damage and damage deposit clause should state the amount of the deposit, the terms of the provision, and the process to return the deposit. The terms of the provision should indicate that damages will be assessed at the end of each semester or academic term, or monthly, quarterly, etc., either to the responsible party(ies) or, if unknown, to the entire membership or only to members living in the fraternity house.

Alterations -This provision includes such things as a member installing new electrical wiring or changing the combustion rating of his room during an annual remodeling of separate sleeping or study areas in the house. There is no fully adequate statement to cover every situation. It is therefore advisable to make a general statement that the member will not make alterations to any personal area without the express written approval of the House Corporation and that personal living areas must be returned to the original condition at the end of the academic term, or the member must pay for having the living area returned to its original condition.

Disciplinary or Academic Termination - The provision for disciplinary or academic termination should state that the contract will become invalid if the student is dismissed from the college for reasons of academics or misconduct. Many fraternity housing contracts make a general reference that the member must fully comply with Delta Chi Law and all rules of the institution and chapter and must also comply with all local, state, and federal laws while living in the fraternity residence. The general statement allows for greater flexibility without being overly vague. Be sure to include pro-rata responsibility for room and board through the date of termination.

Housing contracts may have a specific provision prohibiting illegal drugs and selling of illegal drugs in or on fraternity property. This provision may be redundant if the contract has a general disciplinary provision.

Escalator Clause - This type of provision simply provides for an increase in the rental charges to cover specific, unexpected costs. The two most common escalator clauses are for utility increases and to cover a drop in residence level of the fraternity house. The latter provision is a successful monetary motivator to the undergraduate chapter members to fill the fraternity house to its capacity. An escalator clause for occupancy sets specific rent charges in accordance with an incremental residency scale. This enables more reliable financial planning for chapter leaders, as well as for the corporation.

Inspections - Chapter officers, alumni advisors and house corporation members sometimes feel that they have an absolute right to enter any room of the fraternity house for any purpose. Such a belief misinterprets the proper relationship between the corporation and its residents. The personal room of an individual is legally very similar to a rental unit in a large apartment complex. In a rental agreement, a landlord may retain the right to inspect an individual's room to insure that heating, electrical and plumbing equipment is in proper order, but he does not have the right to conduct a full-scale search of the apartment. Similarly, the officers of a chapter and representatives of a house corporation do not have the right to search the person, personal possessions or insides of drawers or closets of an occupant of a fraternity house and in fact may incur significant liability for conducting an unlawful search. Neither do they have the right to authorize a law enforcement agency to do so without a search warrant.

If your house corporation is leasing or is planning to lease, BE CAREFUL! Examine the lease with the institution or other landlord and be aware of the rules and regulations. Fraternity houses located on land owned by and leased from state institutions are frequently subject to college rules and regulations, including those permitting inspections. However, the university's right to search must be narrowly construed to be limited to university discipline, educational purposes or safety considerations and cannot be delegated to criminal investigators.

Other - Other conditions that may be incorporated in a housing contract are a prohibition of pets, conditions regarding the use of alcohol, repairs, guns/ firearms, etc.

SECTION VI: RELATIONS WITH THE FRATERNITY

IS YOUR HOUSE FULL?

Hopefully all our chapters and house corporations will confront the problem of not having enough room for every member who wants to move into the chapter house.

If this is your problem, congratulations, you're doing something right! However, do not assume the situation will be permanent. If you have more people wanting to move in than you have space for, then some method should be agreed upon to determine who will live in the house. Take into consideration such things as fiscal responsibility, academic achievement and chapter involvement. Too frequently, seniority or pin number alone is used for selection. There should be a mix of ages, grades and personalities. Associate members can also be included in the occupancy selection process. A balanced, in-house membership promotes a healthy chapter.

Unfortunately, the more common problem is having empty beds. Too many chapters fall into the trap of declining membership. To avoid this trap, a strong rush program must be developed to maintain an adequate membership. Your membership needs to be sufficiently higher than the capacity of the house to insure the highest occupancy. Members often have valid reasons not to live in the chapter house. Those from the area may need to live at home, freshmen may be required to live in residence halls, others may be unable to break their current contracts elsewhere, and seniors or members with intense or specialized studies may need to live out-of-house for privacy reasons. The key to a full house is a strong rush program. Chapters with a poor rush program often try to make up for their inadequacies by requiring members to live in the chapter house. This "quick-fix" solution often breeds discontent and inactivity and can cause further membership recruitment obstacles.

If the chapter has sufficient membership and the house is not full, analyze why the problem is present. Many times there are real reasons why members do not want to live in the house. Review the study conditions, the bathroom facilities, the food program, privacy considerations, and the overall appeal of living conditions. It is hard to fill a dirty house that lacks the physical comforts one can reasonably expect. Correct the problems and make living in the house a more appealing option.

This is not to suggest that there is no place for out-of-house members. Quite the contrary, members living outside the house can be a real asset. They can help provide rush prospects; they can represent the fraternity in more areas; they can bring new ideas into the chapter; they can help the chapter maintain a more objective self image because of their removed point of view.

Here are some suggestions to help obtain or maintain full occupancy.

1. Pride should at all times be displayed in the house, notwithstanding its physical conditions.
2. The house should be well maintained, including regular cleaning, painting, etc. Never let small repairs wait.
3. A pleasant atmosphere should be created so that members will enjoy living in the house. Planning functions and having recreational equipment in the house could be some ways to accomplish this.
4. The chapter should never limit its source of potential residents by preventing new members or associate members from living in the house.
5. All chapter officers, particularly the "A", "B", "D", associate member counselor, rush chairman and the house manager, should be required to live in the house during their terms of office. Special rooms can be designated as officer rooms.
6. Care should be taken to protect the rights and privacy of all occupants.
7. The chapter should not rely on monthly or semester occupants. Every occupant should be required to live in the house for at least the full school year.

BREAK EVEN POINT

Money for payments and upkeep on a house are generated by the rent from members living in the house and from parlor fees from those members living out. Obviously, if the rent and parlor fees do not match expenses,

the whole chapter is in jeopardy. If a chapter is not able to keep its house full, financial problems within the chapter may arise.

Every house has a financial break-even point at which expenses incurred match income derived. Operation below this point incurs debt while operations above the break-even point generate a surplus of money. Break-even points are determined by dividing the level of rent into the total house expenses (both fixed and variable). Fixed costs also include an adequate yearly depreciation on the roof, boiler, etc.

Break-even point analysis

House occupancy (residents)	25	30	35
Revenue/school year (rent)	\$45,000	\$54,000	\$63,000
Total house expenses	<u>\$52,200</u>	<u>\$54,000</u>	<u>\$55,800</u>
(DEFICIT)/ SURPLUS	(\$7,200)	\$————	\$7,200

When the house is below the break-even point, as illustrated in the first column of figures, the chapter loses money. The absence of five members from the break-even occupancy level may be seen by the membership as “no big deal” or even as a luxury. But over a school year, this inefficiency will, in the example above, cost the chapter \$7,200 that must come from other areas of chapter operations. Lack of funds creates the obvious problems of restricted budgets for all programs and activities. Dues that normally pay for social functions, rush, and other chapter programs must be spent on paying for the chapter house operations. If any year’s operation is below the break-even point, this deficit must be made up with a special assessment or passed onto future years. It is simply unfair for future brothers to bear the consequences of the inadequacy of the current membership. That is not what fraternity is about.

When the house is above the break-even point as shown above in the last column, a surplus is created. These funds can be returned to the house in the form of improvements and / or to the chapter to improve operations or to develop a housing fund for future purchases. If your house is operating below or near the break-even point with less than full occupancy, prepare a projected budget, in detail, showing how full occupancy will provide funds for improved operations, new furniture, pool table, weight room, computer room, big screen TV, renovation, expansion, housing fund, etc. This can be quite an incentive for the members to fill the empty beds.

PARLOR FEES

Each out-of-house member should be responsible for a set parlor fee. This fee contributes toward expenses incurred in the operation of the chapter house. Each member, both in and out of the house, should share in the expenses involved in fraternity house operations such as depreciation, electricity, gas, water, cable TV, house phone, repairs, cleaning supplies, etc. Total expenses should be projected and that figure divided by the total number of members. This way everyone shares in the chapter house operating costs.

ADDITIONAL COMMENTS

If there are empty beds in your chapter house, DO NOT allow the members to have single rooms. This will only create a disincentive to rush, as it will mean giving up their private rooms if they pledge more men. Double them up and lock the empty rooms. This will eliminate unnecessary wear and tear on the unused rooms and will likely reduce the utility bills. Taking away the complacency of having one’s own room will provide an incentive for the undergraduates to rush new members and to fill the empty beds. This will also provide additional funds to be used as needed and explained above.

SECTION VII: BUILDING A FINANCIAL RESERVE FOR THE FRATERNITY HOUSE

By Richard McKaig, Ball State '66
Delta Chi Quarterly, Winter '84-'85
(while some of the references to such things as interest rates
are dated in this article, it is still an excellent resource)

On many campuses, adequate housing for the fraternity is an important consideration in attracting new members and maintaining an active brotherhood for undergraduates. The chapter house also becomes a focal point for continued alumni involvement and pride in the chapter. Sustaining the quality of fraternity housing and keeping it competitive with other forms of housing available to students could be an important concern of fraternity leaders. In many instances, inadequate building reserves have been set aside and the chapter physical plant is deteriorating to a point that continuation of a chapter house could be threatened within the next twenty years.

THE PROBLEM

From my experience with the Greek system at Indiana University, the cost of construction of new fraternity housing has more than tripled in the last twenty years, and the problem is compounded by the fact that interest rates have doubled and the fixed rate loan has been replaced by the variable interest loan. Even for chapters with relatively modern facilities, it is estimated that the cost of major renovation will exceed the original cost of building the entire house. While some groups have the equity of the current property on which to borrow, they too face the dilemma of the increased cost per member of financing a loan of several hundred thousand dollars. If costs for Greek housing are to remain competitive with other forms of housing and if the quality of the physical environment of the chapter house is to be maintained, reserve funds must be built to offset in part the loans required at the time of chapter house replacement or major renovation. Nationally, this is a time of increased interest in fraternities, and memberships are reaching an all-time high. It also should be a time of increased interest in restoring chapter houses and ensuring that the fraternity living experience will be an option for students enrolling in the year 2020.

POSSIBLE SOLUTIONS

A plan to build reserve funds for a chapter house should include some or all of the following:

1. **Education of Corporate Board Members and Other Appropriate Individuals** - House corporation boards need to educate themselves more completely regarding the financial ramifications of repair and replacement projects that will be likely in most chapter houses in the next ten to twenty years. Included in that process needs to be an understanding of tax laws as they relate to developing reserves and the soliciting of gifts for building projects. It is also important that corporation boards become familiar with the range of options available to students in other forms of housing on the campus.
2. **A Phased Plan for Replacement or Renovation of the Chapter House** - A thorough study of existing facilities should be completed with the assistance of qualified individuals to project at least a 0-5, 5-10 year plan for replacement or major renovation. The study should include an assessment of the structural condition of the house as well as major operating systems, i.e., heating, plumbing, electrical, kitchen, etc. Consideration should be given to improvements that may be necessary to remain competitive, i.e., air conditioning, energy saving improvements, computer access, etc.
3. **Multiple Techniques for Developing Reserves** -
 - a. **Rent** - While special assessments and other techniques can be used to develop a reserve fund, good fiscal management would suggest that rent should include a reserve and replacement factor. Many chapters have established rent at a rate that only meets base costs. In effect, the chapter is currently being subsidized by generations of members before them that initially paid for the house. Houses currently being financed on fixed rate low interest loans should be in an excellent position to develop cash reserves.
 - b. **Building Fund Assessment** - Several groups collect a building fund assessment but usually as a one-time (possibly paid in two installments) expense of membership. As part of a total plan for developing reserve funds, such an approach is helpful. If it is the sole source of establishing a building reserve fund, it is unlikely adequate reserves can be developed.

- c. **Percent Surcharge on Established Payments** - Some chapters have felt it useful to develop reserve funds by adding an established percentage to fees regularly paid for pledging, initiation, annual dues to the fraternity, etc. Similarly, a portion of dues annually paid to the chapter alumni association might be directed to the reserve fund. As with the building assessment, this approach alone is unlikely to generate adequate reserves for major improvements, but can be effective in financing needed minor alterations which better maintain the chapter house.
 - d. **Annual Campaign** - Most chapters have used a building campaign as a technique to offset construction and/or building repair costs. Well-organized campaigns involving personal solicitation can be very successful. Consideration should be given to an annual chapter alumni campaign with funds earmarked for renovation or replacement of the chapter house. Careful management of the fund and a well prepared plan for renovation or replacement would be an essential part of an annual campaign. Consideration should also be given to the timing of the campaign so as not to conflict with other types of solicitation the alumnus is likely receiving from either the institution or the General Fraternity.
 - e. **Parents' Club** - For some chapters, solicitation through a Parents' Club has been effective for developing reserves and/or responding to immediate needs for repair or renovation. Parents have a direct interest in the quality of the chapter house.
4. **Management of Building Reserves** - One reason few chapters have adequate building reserves is that those funds directed to reserves are spent for operations. Well established guidelines for the use of reserve funds and professionally qualified management of the investment of reserve funds is important. Competent legal advice on tax implications of reserve funds is also essential. Routine maintenance should be a part of the house budget and should not be allowed to deplete the reserve fund.

Regardless of which options are followed, it should be obvious that chapters need to plan now for the future if the chapter house is to remain a viable part of the fraternity experience. Undergraduates and house corporation boards should mutually undertake a thorough review of their current housing situation and discuss plans for better maintaining or improving the facility in the years ahead.

SECTION VIII: HOUSE FINANCING FUND-RAISING CAMPAIGN PROGRAM

While these are brief, basic points, each one is extremely important to chapter operations. Each one should be apparent for a considerable length of time before the house corporation considers investing its time, energy, and money (or solicits the services of the ABT or undergraduate chapter) on any extensive project. If the chapter is weak in any of these areas, it is the responsibility of the house corporation and ABT to offer assistance.

FUND RAISING WILL PROVIDE A PRUDENT FOUNDATION FOR YOUR ORGANIZATION

A profitable alternative to financing improvements in chapter house facilities is raising funds from members, parents, and special friends, because money is produced "for free." Fund raising minimizes the amount of debt which must be repaid and eliminates many dollars of interest expense. For example, \$10,000 raised in gifts will spare undergraduates and alumni the responsibility of an eventual expense of \$20,000 to \$24,000 (by repayment of the \$10,000 principal, in addition to the usual 10-15%/year in interest and other charges).

If each additional \$10,000 of debt costs \$20,000 or more, the house corporation can wisely afford to spend \$1,000 to \$1,500 in acquiring \$10,000. A house corporation undertaking fund raising in a well-organized manner and investing \$5,000 to \$10,000 or more for professional assistance, usually does not have great difficulty reaching a goal of \$75,000 to \$100,000 or more. However, be sure to take into account the alumni base of your chapter. Ironically, attempts to "save money" by cutting corners can have drastic results.

Fund raising in a strong organization, justified by a "good investment," brings together the chapter members in a common project and recharges chapter spirit. This provides opportunities for many members to participate (even those far away) and develops a continuing concern and investment in the chapter.

WHAT METHODS AND TECHNIQUES HAVE BEEN MOST ESSENTIAL FOR SUCCESS?

Several matters are of primary importance in planning a fund-raising project:

An Attractive Cause publicized as being important for the general good will generate alumni support.

Good Leadership can produce a total understanding of the project and can greatly affect the dollar results.

Personal Solicitations are essential because direct mail appeals are always disappointing, even when done artfully. The enlistment of volunteers who have a role as solicitors are important because people give to people. In most cases, numerous volunteers will attract larger gifts from core members because of greater exposure. No volunteer should be responsible for effective contact with more than five prospective area donors.

Good Information and addresses of prospective donors is essential. There must be a carefully planned program, including a timetable, to turn the goal into reality. A headquarters should be established for coordination and centralization.

IMPORTANT PRELIMINARIES TO THE FUND-RAISING CAMPAIGN

The undergraduate chapter must have a sound, well-developed program of alumni relations. The importance of effective, continuing communication with the chapter's graduates and of a functioning Alumni Relations Program cannot be over-emphasized. The program will serve as the primary determinant in a successful drive for funds.

Prior to conducting a drive for monies, several prerequisites must be satisfied:

1. It is strongly recommended that a directory of all initiated chapter members be published. The directory should list a current address and the present occupation of every member. In addition, the directory is an excellent rejuvenation of the chapter's communication with its alumni.
2. A concise, realistic appraisal of the funding necessary to make possible the construction or renovation is vital. Conversely, there is nothing more damaging to the campaign than to "go back a second time" for additional funds. This is a firm and important basic step.

3. It is recommended that a Building Committee be utilized consisting of chapter officers combined with house corporation members. The Building Committee should: 1) determine the long-range house improvements needed and the funding necessary; 2) initiate the publication of a chapter directory; and 3) form the campaign organization.

The house corporation should initiate the campaign by establishing the building committee.

SUGGESTED CAMPAIGN ORGANIZATION - THE FUND-RAISING TEAM

When these prerequisites have been completed by the building committee, the general chairman for the drive should be selected. It is recommended that this graduate brother be a prominent alumnus of the chapter; further, he must have substantial time available and have secretarial services at his disposal.

An **assistant general chairman** should also be considered along with the following chairmen in order to complete the campaign leadership:

1. Special Gifts
2. Geographical Phase
3. Class Phase
4. Parents and Friends Phase
5. Undergraduate Phase
6. Memorial Gifts

The **special gifts phase** of the campaign is one of the most important. The chairman and his committee members should be chosen for their abilities to communicate with prospective donors capable of contributing substantial amounts of money.

Determine who are the seven most affluent members of the alumni body, and ask them to join a syndicate that will match, up to a stipulated limit, every dollar that is raised from the other alumni, the active chapter, and the parents. Obviously, if one alumnus can and will underwrite one-half of the goal, that's great! In other words, do not get any more members into the syndicate than is absolutely necessary: the more members who are affluent giving outside of the syndicate, the more money that can be raised from this phase. A dollar-for-dollar device works magically. It offers an appeal to the smaller giver who can see his modest contribution instantly doubled in its value to the Fraternity; the contributor who donates substantially feels no need to carry the entire burden. On the contrary, he only gives as results are produced from alumni as a whole.

The members of the special gifts committee, working with these potential donors, should make calls prior to the official opening of the campaign. The results achieved by these people will serve as both a significant challenge and as an impetus for the drive. Approximately 60-80 percent of the total monies raised can come from this source.

Geographical phase chairmen should be appointed for each area where there is a large concentration of the chapter's graduates. It is the responsibility of these chairmen to organize captains and workers to contact each graduate in the area. A sufficient number of workers should be recruited so that no brother is assigned more than five personal calls.

Class (or associate member class) phase chairmen, by personal contact with their classmates, initiate the third phase of the campaign. Since a great measure of loyalty to the chapter is developed through the members' class affiliation, it is highly recommended that a representative be appointed for each graduating class, or at the very least, for his college generation. An over-all chairman will be necessary to assure coordination.

After an adequate time, preferably two or three weeks, has been allowed for as much personal solicitation as possible through the geographical phase, class contact should begin.

Class chairmen need an accurate, up-to-date report of their class members who have not responded to the special gifts and geographical solicitations. Recognizing that the majority of the class activity will be through direct mail, a special letter composed by the general chairman is particularly effective in follow-up and emphasizes the class phase of the campaign. Copies of the letter, along with addressed envelopes or address lists, should be placed in the hands of each class chairman—for all members of his particular class or college generation not having contributed. The class chairman should then personalize each letter with a postscript, encouraging the classmate to contribute. The postscript might also include statistics on the amount and number of contributors from the class to date. Including a pledge card and a postage-paid return envelope in all such direct mail appeals is highly recommended.

The parents and friends phase of the campaign should be directed to the especially interested non Delta Chi parents of both current and former undergraduates and friends who have been in contact over the years. Both categories should be carefully studied for giving potential. Many chapters have ready-made vehicles with which to implement a successful drive among parents—namely mothers’ clubs and dads’ clubs. These organizations should definitely be brought into the campaign.

The undergraduate phase should be directed towards the active members who are certainly expected to contribute their “fair share” to the drive, taking into consideration the financial obligations involved in obtaining an education. It is important that each undergraduate pledge some amount towards the campaign.

Memorial gifts in remembrance of loved ones by fathers, mothers, sons, wives, brothers, and sisters is also an area to be carefully explored. What better way to provide a living memorial than through a gift to the building fund? Those potential donors capable of especially large memorial contributions should be closely coordinated with the work of the special gifts committee. It is conceivable that memorial donors may be interested in making possible a room unit or other significant fixture in the structure such as a fireplace, BBQ, patio, etc., in memory of the deceased.

FROM “SUSPECTS TO PROSPECTS” - THE SCREENING OF DONORS

A screening meeting, involving the building committee, general chairman, assistant general chairman and six phase chairmen, is a necessary step after establishing the organization. Those involved with this meeting should: 1) identify donors as capable of large or special gifts: 2) develop a sophisticated record keeping system; and 3) establish the next steps to be taken in the fund-raising drive.

The identification of members who have the potential to donate large or special gifts is of primary importance at this juncture. Below is listed a possible scale for members’ giving. However, contributors whose financial resources would permit a substantially greater gift must be contacted.

<u>Years out of school</u>	<u>Amount of giving</u>
1-10	\$100 - \$299
11-20	\$300 - \$499
21-30	\$500 - \$699
over 30	\$700 - \$1,000

Although the campaign goal will certainly affect the amount suggested to individual prospects, a scale of giving, with pledges to be paid over three years, must be established.

A system that records the following information is necessary:

- Name, address, year of graduation
- Profession
- Undergraduate activities (if known)
- Prior giving (if known)
- By whom solicited
- Amount contributed
- Pledge reminder data

This prospect-control card should be maintained by the general chairman, serve as a permanent record on each prospective donor, and control the solicitation of all graduates, preventing any possible duplication of contact.

All information compiled on prospective donors could, of course, be transmitted to the campaign worker. This may be accomplished by: 1) a perforated tear-off portion of the pledge, removed before the worker makes the call or 2) a copy of the prospect-control card. Information concerning prospective donors would be treated as confidential while screening and as the drive workers are making solicitations.

THE KICK-OFF DINNER

Invitations to the Kick-Off Dinner should be sent to all the chairmen and workers. Several dinners may be needed to adequately cover all areas heavily concentrated with the chapter’s graduates. The Kick-Off Dinner(s) should have four objectives, and each dinner may have a separate purpose:

1. The proper preparation of the fund-raising team for the drive.

2. The inspiration of the workers through a kick-off speaker and the report of the special gifts and undergraduate phase chairman.
3. The distribution and assignment of pledge cards to the teams.
4. The distribution of materials, which should include all necessary background information to enable the workers to make their calls as effective and productive as possible, to the teams.

Workers' materials should be mailed immediately to all chairmen, captains, and workers not in attendance at the dinner. As previously mentioned, careful control of pledge cards is essential and may be conveniently accomplished through the initiation of the master prospect-control card prepared for each graduate at the screening meeting(s). Before making assigned personal solicitations, all captains and workers should be expected to make their own pledges.

PRE-APPROACH LETTER

A direct mail communication to all the chapter's graduate members announcing the campaign should either closely precede or immediately follow the Kick-Off Dinner(s). This letter should explain the campaign and the need for funds and contain a brochure, attractively illustrating the campaign. This brochure should detail the building plans and the fund-raising goals.

REPORT PROCEDURES

Continuous communication between the geographical phase chairman, class phase chairman, and general chairman is vital. All gifts and pledges should be promptly reported. Entries should be made on the donor's prospect-control card. All members who pledge an amount should be thanked immediately. At this time the geographical phase chairman can communicate the team's results to the campaign headquarters.

Of equal importance are frequent reports from the general chairman to the chairmen of all phases of the campaign. These announcements should contain totals contributed and the number of contributors, and should spearhead additional work.

CAMPAIGN PUBLICITY

To insure that news of the drive has the widest possible dissemination, a publicity coordinator should be appointed. It would be ideal if the brother handling these responsibilities were employed in the public relations or news media profession.

Announcements of the campaign, the Kick-Off Dinner(s), periodic reports of progress, and the final results can be made through the following media:

1. Local press, radio and television.
2. The school's alumni magazine and newsletters.
3. The chapter's newsletter.

Photographs of the general chairman, the various phase chairmen, the kick-off dinner(s), and the various planning meetings would be welcome by many local newspapers. Releases covering especially large gifts, including photographs of the donor (provided the donor has given permission), should also be made available for use by the above listed media.

FOLLOW-UP - TRY A PHONE-A-THON

After the geographic and class direct mail solicitations have been completed, a thorough follow-up is the next order of business. A highly successful technique used by many colleges, universities, and some Delta Chi chapters in their annual giving campaigns is the phone-a-thon. First, secure a battery of telephones and a team of callers, representing as many college generations as possible. This team of callers should place calls to those graduates who have not previously responded to the drive or have shown no interest or have not committed themselves to pledge.

To conduct a phone-a-thon follow-up, arrangements can generally be made for special lines with the local telephone company. A graduate brother may wish to make available his business office and phones for the phone-a-thon.

Telephone follow-up has proved most effective and is highly recommended. Prior to any telephoning, it is essential that all gifts and pledge reports are recorded and up-to-date. Brothers participating in the phone-a-thon should be furnished with the prospect cards of each graduate and complete background information on the drive.

ACKNOWLEDGEMENT OF GIFTS AND RECOGNITION OF DONORS

All contributions and pledges to the campaign should be properly acknowledged. Checks should be cashed immediately and deposited in an established bank account. Donors are especially sensitive to having their gifts handled and processed in an efficient, business-like manner. Gifts in excess of the recommended scale should be personally acknowledged by the general chairman.

Special donors contributing sums that make possible certain major portions of facilities such as a library, chapter room, study rooms, furnishings and landscaping should be appropriately and prominently identified by engraved individual plaques. An appropriately engraved plaque containing the names of all donors should be considered suitable for mounting and displayed in the chapter house.

**SECTION IX:
PUTTING IT ALL TOGETHER
House Purchase: A Sample Three-year Plan**

How did so many of those other chapters acquire such palaces? The answer is far from simple and affects all areas of chapter operation.

A few basic points should be made about permanent housing. The program usually requires thorough planning and careful execution. Some chapters have planned three years or longer, especially for their first house. Housing is a long-term proposition. Therefore, continuous supervision is needed.

A sample plan has been provided to show how one chapter might plan to secure its first permanent home. This plan can be altered to correlate to your chapter's needs and membership, but the concept is the same. Both a plan and a commitment are required from the alumni and chapter.

THE FIRST YEAR

Objectives for the very first year are to:

1. Establish a healthy membership.
2. Start a future housing fund.
3. Create an active house corporation.
4. Locate adequate and feasible rental facilities.

The chapter determines that a membership of at least 50 is needed to afford an adequate rental facility. Efforts are made through the rush and member education programs to acquire at least this number.

The chapter passes a by-law requiring an additional \$25.00 from each man upon his initiation and \$5.00 monthly, which is directed to a future housing fund, from each member. The proceeds from the chapter's fund-raising projects during the year are also directed to this fund.

Next, plans are made to prepare and send a newsletter to alumni, faculty members, parents and friends three times during the year. The purpose is to establish good relations and to impress the chapter's strong points.

The chapter appoints a three-man house committee to look for rental facilities. The committee utilizes the assistance of the "BB". A list of prospective properties is developed along with asking amounts. This stays within the committee to eliminate knowledge of availability to other groups that may be seeking rental facilities.

Toward the end of the first year, the chapter reviews its objectives. An average membership of fifty-two men was maintained. From the assessments of the membership and special fund-raising projects, the chapter has accumulated \$5,650 in its future housing account. The newsletter was prepared and sent three times during the school year. The housing committee has located four prospective rental facilities for the coming year. The chapter determines that a good public relations program with alumni and friends has been established; therefore, the decision is made to attempt to form a house corporation.

The "BB" is utilized to personally contact those alumni and/or friends who may be interested or qualified to serve on the house corporation. He then follows the recommended procedures set forth in the *House Corporation BRIEF*. An attorney is selected or retained to incorporate the house corporation, and business from that point is conducted in accordance with the by-laws.

The house corporation and chapter officers hold their first planning meeting. (Note: the chapter officers are not members of the house corporation) At this meeting, the chapter establishes objectives with the house corporation to deserve permanent housing. The house corporation does the same.

The chapter's objectives are to:

1. Maintain an average yearly membership of at least 50 men.
2. Pledge at least 30 new members yearly.
3. Initiate at least 90% of the new members.

4. Prepare and distribute an alumni newsletter three times yearly.
5. Update the alumni directory yearly.
6. Sponsor a Homecoming event and a Founders' Day banquet for the alumni yearly.
7. Continue the three-man chapter housing committee to perform leg work for the house corporation.
8. Remain financially solvent.
9. Send semester financial reports as well as a year-end audit to the house corporation.
10. Meet with the house corporation on the first Tuesday of September, December, February and May of each year.
11. Attain other objectives as determined necessary.

The chapter also decides to give the house corporation the future housing fund for its control along with the list of prospective rental properties.

Based on these objectives, the house corporation establishes objectives that it commits to achieve as the chapter meets its objectives. The house corporation's objectives are to:

1. Immediately rent a temporary facility for the chapter.
2. Solicit at least 50 alumni or friends to become dues-paying members of the house corporation at \$100 each.
3. Attend the alumni functions of the chapter each year.
4. Provide a year-end audit report to the chapter.
5. Coordinate an alumni fund-raising project to raise \$10,000 within two years.
6. Within two years, purchase a permanent home for the chapter with a total cost of \$250,000 to \$300,000.
7. Have a meeting of the board of directors and chapter officers on the first Tuesday of September, December, February and May of each year.
8. Hold special meetings of the officers as necessary.
9. Attain other objectives as determined necessary

THE SECOND YEAR

The house corporation locates a rental facility that it determines might be a good permanent home. After discussing the property with chapter officers, a two-year lease with an option to purchase for \$240,000 is signed between the owner and the house corporation. Lease payments amount to \$3,500 per month, nine months each year. The chapter enters into an operating agreement with the house corporation whereby the chapter agrees to pay the house corporation \$4,200 per month, nine months per year. The house corporation agrees to place the surplus into the future housing fund.

The chapter's housing committee begins plans to put the house in operation. The house can accommodate 24 men. A survey is made of the membership before the beginning of the school year to determine who is willing to live in the house. Each man planning to live at the house is required to sign a room contract and to pay a security deposit before the beginning of the school year. The housing committee elects a house manager from its membership to coordinate the collection of rent and to take care of maintenance at the house. The housing budget is prepared to make sure that the housing operations will provide enough income to the total chapter budget to afford the house. The housing committee carefully explains to each member his financial obligations to the chapter. It is determined that each man living in the house will pay a \$190 per month rental charge, and each man living elsewhere will be responsible for a \$25 per month parlor fee.

At the end of the second year, the chapter reviews with the house corporation the objectives set over a year ago and the operations in the house thus far. An average membership of 54 men was maintained. Thirty-three new members were pledged and thirty were initiated. The newsletter was sent four times. The alumni directory has been updated. A very successful homecoming event and Founders' Day banquet were held. The three-man housing committee is still in operation. The chapter paid its rent promptly to the house corporation. Financial reports and the year-end audit were prepared, and the chapter is financially solvent.

The house corporation reviews its objectives. A facility was leased for the chapter. Thirty dues-paying members have been obtained. The future housing account now totals \$18,130 including some earned interest.

The chapter and house corporation need to decide if they should pursue the purchase of the existing leased property. Certain preliminary facts and figures are gathered and a positive decision is reached.

THE THIRD YEAR

The house corporation appoints a special fund-raising committee. This committee puts together a solicitation program to alumni and friends of the chapter. The program is announced at Homecoming. The goal is \$10,000, and the deadline date for all contributions is the following Homecoming.

During the year, the chapter continues to meet with the house corporation reviewing its objectives. It is determined that the chapter must have a special fund-raising project with a goal of \$4,000 to be contributed to the acquisition of the property.

Toward the end of the third year, the objectives of the house corporation and chapter are reviewed. The chapter has maintained an average yearly membership of 60 men. Forty new members were pledged and thirty-five were initiated. The newsletter was sent four times during the year. The alumni directory is up-to-date. The Homecoming event and the Founders' Day banquet were very successful. The chapter's housing committee has continued to supervise and manage the operations of the house. The chapter is financially solvent.

The house corporation now has 55 dues-paying members. As a result of the fund-raising program, \$10,700 was raised. The house corporation now has \$48,205 in the future housing account.

More definite facts and figures are collected by the house corporation and the chapter's housing committee to determine if purchasing is still feasible. Consideration is given to the long-term nature of this move and whether the house will be adequate in the years to come. A positive decision is reached. But it is determined that \$10,000 in new furnishings and \$15,000 in remodeling and renovation costs are needed to put the house in first-class condition. The total cost of the project, with closing and other miscellaneous fees, now amounts to \$270,000. Mortgage loans totaling \$224,000 are needed to finance the project.

The remodeling will add five additional sleeping spaces. The chapter determines that it can afford rental expenses of at least \$48,000 to the house corporation per year and prepares a typical budget displaying this. The house corporation is successful in securing a \$175,000 first mortgage loan from a local lender. A second mortgage loan application for a \$49,000 loan is made to the Delta Chi Housing Fund. The house corporation has determined that these two loans, the insurance, taxes and a \$4,000 reserve for depreciation and repairs will require \$32,400. Both loans are granted, the furnishings are purchased, the remodeling and renovations are completed and the project is a reality.

Of course, the above is just an example. Some chapters will find they need to do more or possibly less for permanent housing. The example does not purport to cover every consideration, and in many cases objectives will have to be constantly changed, or alternative planning will be necessary.

Once the project is complete, the work does not stop there. The collection of the \$5.00 monthly fee per man and the \$25.00 assessment at initiation must persist. The money from these assessments and chapter fund raising should continue to be placed in the future housing fund along with the surplus money from the operations of the house corporation. This will enable the house corporation to make needed repairs and additions or even purchase or build a new house in future years.

The next step is to continually make sure the house is properly managed and well maintained. This is the best way to assure an adequate and competitive facility. If this is done, then once the house starts outgrowing its usefulness, the move to another house will be much easier and probably faster to accomplish.

Thorough planning, careful execution, knowledgeable alumni and a deserving chapter will result in an appropriate house for the chapter.

SECTION X: TAXES

This section is intended for informational and general advice purposes only and does not constitute legal advice. A competent tax advisor should be contacted regarding specific legal questions or questions about the application of these rules to particular situations.

Fraternalities often engage in a wide variety of financial transactions that can create great liabilities to the Internal Revenue Service (IRS). Failure to file a tax return can trigger an audit, which can involve thousands of dollars of expenses for professional services alone. If house corporations and their related chapters do not have proper corporate and tax planning, it is possible for them to sink into financial quagmires of controversy and unpleasantness. If regular and orderly attention is given to the routine legal and business problems of a fraternity at its local level, the house corporation and its related chapter can generally avoid unnecessary expenses arising from unexpected legal problems.

It is essential to realize, while Delta Chi Fraternity and its related chapters and ABTs are classified under Internal Revenue Code section 501(c)(7) as exempt organizations, that this classification does not automatically extend to the house corporation. The house corporation must separately apply for this classification or subordinate itself to the Delta Chi National Housing Corporation (See **Addendum B**). **It is also essential to realize that donations to a house corporation or its related chapter or alumni chapters are not tax-deductible** and must be labeled as such (see **Addendum A**). This is a common misunderstanding that can cause many problems.

Your House Corporation As a Taxpayer - The concept of a fraternity house corporation as a taxpayer encompasses the filing of many tax returns and reports and the payment of monies to the various taxing authorities in compliance with a great number of federal, state and local laws. Many of these, such as the United States Internal Revenue Code, which governs all federal taxes, are frequently amended and revised. Hence, it is feasible here only to highlight the basic tax returns required and to offer general advice. These requirements and their application to your particular situation should be reviewed periodically with a competent tax accountant or attorney and coordinated with your corporation treasurer.

INCOME TAXES

General Rule - Most national and international fraternities qualify for and have been granted exempt status by the IRS as social organizations and are therefore generally exempt from the payment of federal income tax under the provisions of Section 501(c)(7) of the Internal Revenue Code. This exemption usually includes a blanket exemption for the chapters of the fraternity. Thus, as a general rule, a fraternity chapter is exempt from the requirement of paying federal, state or local income taxes with respect to income derived from its members from dues, fees and charges paid by them in return for goods, facilities and services furnished. However, income derived from non-member sources is generally subject to federal income tax. Rental income derived from non-member boarders during the summer, ticket sales for dances open to the campus, and even a fraternity car wash may fall within the category of unrelated business income. The Internal Revenue Code does allow for up to \$1,000 of such income without incurring any tax liability. Congress has also provided that the chapter may receive up to 35% of its gross income from non-member sources without losing its tax-exempt status. This 35% ceiling includes investment income from such sources as dividends, interest, rents, royalties and up to 15% of other non-member income.

Regardless of whether or not these limits apply to your chapter, the fraternity is still required to obtain federal and state tax identification numbers and file certain income tax forms. Because of potential penalties, fines and in some cases imprisonment for failure to file returns, it is imperative that your chapter comply with these requirements.

Set-Aside Fund - If your chapter or corporation has in excess of \$1,000 from interest, dividends and other investment income and wishes to utilize a procedure that is available to avoid payment of tax on these amounts but that restricts use of these funds to certain purposes, you should consider a set aside fund. The set aside fund can be used for scholarships, educational meetings (such as regional conferences), alcohol/substance abuse seminars, contributions to charitable organizations and other similar wholly charitable and educational purposes. Currently, most alumni newsletters and the Delta Chi Quarterly are not considered 100% educational and are therefore not eligible for set aside funding.

IRS Form 990 - This is the basic federal tax form for non-profit organizations that are exempt under Section 501 of the Internal Revenue Code. This form, which **must be filed annually**, is detailed and sometimes complicated. Some states also require the filing of information returns similar to the 990. When filling out these returns, you may

need to seek help either from your chapter financial advisor or an accountant. As stated above, if your chapter has over \$1,000 per year in outside income, projects or sales, that income may be subject to income taxes and must be reported on annual Form 990-T. The house corporation treasurer assumes responsibility for these returns. Be certain they are being filed.

At the time of this publication, the filing levels for this new form were not determined.

PAYROLL TAXES

F.I.C.A (Social Security Taxes) Form 941 or 942 - Generally, active chapters are not required to pay Social Security taxes on wages paid for services performed by enrolled students but must collect and pay such tax with respect to domestic service by other or for other classes of employment where remuneration is \$50.00 or more in any calendar quarter. Payment to house officers, whether that payment be by reduction in cost of meals or room or in cash, is generally included in other classes of employment and is subject to Social Security taxes.

Form 942 is used if the only employment is domestic and is done by others besides enrolled students. Otherwise, Form 941 is to be used. These forms are due on or before the last day of January, April, July and October with respect to the preceding calendar quarter. Specific instructions concerning the use of these forms can be found in an IRS publication known as Circular E, which is available at your local Internal Revenue Service Office.

Every chapter, house corporation and alumni chapter must have its own Federal Employer Identification Number, **whether or not** it has employees. This number is obtained by filing Form SS-4 (available at your local IRS office and at the International Headquarters) with the proper IRS office for your district.

Withholding of Income Tax From Employees - Generally, federal income taxes do not have to be deducted and withheld by active chapters for domestic service of a household nature performed by employees in a local chapter house. Service of a household nature includes service by cooks, waiters, butlers, janitors and housemothers. If the only kind of domestic service paid for by the chapter is of a household nature, no income taxes are withheld and no withholding forms need be filed.

If other salaries are paid, for instance to a house officer, and that salary in cash value is greater than the minimum amount monthly, a percent of the excess must be withheld. If a report must be filed, it is done on Form 941, the quarterly return also used for Social Security Tax (F.I.C.A.). Withholding of state and local income taxes may also be required in certain circumstances. You should consult your local taxing authorities.

W-3, W-2, 1099 and 1096 - At the close of each calendar year a special summary of wages paid must be filed which consists of Forms W-3 and W-2. The law requires that a terminated employee be furnished his W-2 within thirty days after termination. Also, any non-corporate payee whose remuneration totals \$600 or more for the calendar year and who has not been included in your quarterly Form 941 return must be reported annually on Forms 1099 and 1096.

Federal Unemployment Tax - The active chapter may be responsible for paying unemployment taxes with respect to wages paid in cash for domestic services around the chapter house. If the house employs a janitor or similar domestic servant and pays him cash wages of over \$1,000 per calendar quarter, the chapter must generally pay a tax on the total wages paid each year. The chapter may also be liable for state unemployment taxes; such taxes are generally credited against the federal unemployment tax liability. Again, consult your local taxing authorities.

STATE AND LOCAL PROPERTY TAXES

A chapter's tax-exempt status with respect to income taxes does not generally apply to state or local property taxes. Houses generally will be assessed and taxed by state and local taxing authorities. Also, personal property furnishings of the chapter house usually will be taxed in similar fashion.

CONTRIBUTIONS

All chapters, house corporations and alumni chapters should be exempt under Code Section 501(c)(7), which covers social clubs. This status does not mean contributors can obtain a tax deduction. Persons wishing to contribute in a tax deductible manner for fraternal purposes should make payment directly to the Code Section 501(c)(3)

charitable organization that benefits their national or local fraternal organization, e.g., an Educational Foundation. Contributions or prospective contributors to Code Section 501(c)(7) organizations (and other non-501(c)(3) organizations) must be informed by the organization of this nondeductibility (see **Addendum A**).

Chapters/Colonies conducting annual alumni dues solicitations should keep in mind a recent amendment to the United States Postal Code. Exact requirements are in 39 U.S.C. 3001(d), but basically state that: any mailable material that could be considered a bill, invoice or statement of account due must bear written notice that "THIS IS NOT A BILL" and a disclaimer that "THIS IS A SOLICITATION AND YOU ARE UNDER NO OBLIGATION TO ACCEPT THIS OFFER." Such material must also contain the above nondeductibility notice (see **Addendum A**).

Care should be taken by each chapter to determine which tax forms it needs to file and the dates on which they are due. Protect yourself and your chapter from needless liability by doing so. If you have any contact from the Internal Revenue Service, contact your tax return preparer or other tax advisor immediately for further advice and instructions.

SUMMARY

1. House corporations do not fall under the national Fraternity's tax exemption. Each house corporation must apply for its own exemption. All house corporations should apply to be classified as 501(c)(7) organizations.
2. Each house corporation must have its own Federal Employer Identification Number. This number can be obtained by sending Federal Form SS-4 to the IRS.
3. Each house corporation must prepare (or have prepared) annually a Federal Form 990 and file it with the appropriate IRS office.
4. Federal Form 990-T must be filed by house corporations having gross "Unrelated Business Income" (usually interest) exceeding \$1,000.
5. State filing requirements and sales tax exemptions vary by state. Consult with a local state agency or accountant.
6. A house corporation with a large amount of investment income must exercise extreme care to avoid endangering its tax-exempt status.

ADDENDUM A
IMPORTANT TAX NOTICE
TO ALL HOUSE CORPORATIONS AND
UNDERGRADUATE AND ALUMNI CHAPTERS

We have been advised by legal counsel that all written fund-raising appeals made by all local entities of the Fraternity that do not have a Code Section 501(c)(3) tax exemption must include the following statement on their solicitations for funds:

“Contributions or gifts to (name of organization) are not deductible as charitable contributions for federal income tax purposes”.

This statement must be in at least the same size type as the primary message stated in the body of the letter; must be included on the message side of any card or tear off section that the contributor returns with the contribution; and the statement must be either the first sentence in a paragraph or itself constitute a paragraph.

Although there are certain exemptions from these rules, the rules concerning such exemptions are so technical and the penalties for failure to follow these rules so severe, that legal counsel has advised us that this statement should be used by all local entities, regardless of their size, to be on the safe side. We have been further advised that the Internal Revenue Service has interpreted this requirement also to apply to billings of membership renewals and membership solicitations. Therefore, any and all mailings to members of dues notices, membership renewal communications, and the like should also follow the above rules.

There are also similar rules concerning oral solicitations.

**ADDENDUM B
SUBORDINATION LETTER**

Whether the Chapter/Colony already has a local housing corporation or is establishing a new one or even re-establishing a dormant one, they can and are welcome to join the national corporation and automatically gain 501 (c)7 status. All a local housing corporation has to do is send in a letter to the Delta Chi National Housing Corporation located at the International Headquarters. You will then be processed and informed of your status as a subordinate of the "Delta Chi National Housing Corporation." The E.I.N. for the National Housing Corporation is: 31-1796930 but the local house corporation will still need to incorporate in its respective state and use its own E.I.N. since it is a separate legal entity. If you have any questions on submitting a subordinate letter, or joining the National Housing Corporation please contact Delta Chi International Headquarters at 319-337-4811.

SAMPLE FORM LETTER

Name of Local House Corporation
Address of Local House Corporation
Employer ID Number of Local House Corporation

Date

Delta Chi National Housing Corporation
314 Church St.
Iowa City, IA 52245

RE: Authorization to Include Organization on Delta Chi National Housing Corporation Group Exemption Roster

Gentlemen:

This letter is being written to authorize Delta Chi National Housing Corporation ("Corporation") to include this organization on the Corporation's Group Exemption Roster with the Internal Revenue Service. We understand that this will confer upon this organization Code Section 501 (c)7 tax exempt status. We further understand that this organization is still responsible for filing its own Forms 990 and 990-T and any other required Forms with the Internal Revenue Service.

(For organization previously having exempt status: otherwise, omit.): This organization has previously been tax exempt under Code Section 501 (c) (fill in correct number here) on an individual basis pursuant to a determination letter from the Internal Revenue Service dated _____ (copy attached). Upon being added to the Corporation's Group Exemption Roster, this organization wishes to relinquish that individual tax exempt status.

Sincerely,

(Signed by a duly authorized officer of the organization)

House Corporation

ADDENDUM C
SAMPLE ARTICLES

The following sample Articles are designed for local house corporations that are subordinates of the Delta Chi National Housing Corporation. Since state law regarding corporations can vary, it is always a good idea to consult an attorney before using the sample.

SAMPLE

_____ HOUSE CORPORATION

ARTICLES OF INCORPORATION

We, the undersigned, who are residents of the State of _____ hereby associate ourselves and our successors into a body corporate, under the provisions of the laws of ____ (State) _____ for the purpose of forming a not-for-profit corporation, having no capital stock, and assuming all the powers, rights and privileges granted to not-for-profit corporations under such laws.

We hereby adopt the following Articles of Incorporation:

ARTICLE ONE

NAME

THE NAME OF THIS CORPORATION SHALL BE _____ House Corporation.

ARTICLE TWO

PURPOSE

The purpose of this corporation shall be for pleasure and recreation and in furtherance thereof, to provide and maintain a suitable collegiate home for the members of _____ Chapter of The Delta Chi Fraternity, Inc., and to promote the best interest of both _____ Chapter of The Delta Chi Fraternity, Inc., located at _____ University and of The Delta Chi Fraternity, Inc.

ARTICLE THREE

PLACE OF BUSINESS

The principal place of business of this corporation shall be in the city of _____, County of _____, State of _____.

ARTICLE FOUR

POWERS

Pursuant to the purposes for which it is organized, this corporation shall have the power to:

- buy, lease or otherwise acquire real and personal property, and to manage and maintain such property;
- to take by gift, purchase, devise, or bequest real or personal property;
- to construct, remodel, repair, or alter real property;
- to sell, lease, convey, or dispose or mortgage or otherwise encumber said property; or any party thereof;
- to borrow money and to give its notes or other obligations therefor;

House Corporation

- to secure payment thereof, by pledge or mortgage, of real or personal property owned by the corporation;
- to carry on any other business within the general scope of providing and maintaining a fraternity home for the benefit of _____ chapter of The Delta Chi Fraternity, Inc.

The directors, officers, employees, and members of the corporation shall not as such be liable for its debts or obligations, and the directors, officers, employees and members shall not be personally liable for any claim based upon an act or admissions of such person or persons performed in the reasonable discharge of their lawful corporate duties.

ARTICLE FIVE

DURATION

This Corporation shall endure perpetually.

ARTICLE SIX

MEMBERSHIP

Membership in this corporation shall consist of individuals who are members of or have an interest in the well being of The Delta Chi Fraternity, Inc., who shall have complied with such other and further requirements as are provided for in the Bylaws of this corporation. This corporation shall have no capital stock and no dividends or profits shall be declared to the members thereof.

ARTICLE SEVEN

VOTING POWER

The voting power and interest of each member of this corporation shall be equal to that of every other member, and each member shall be entitled to one vote upon propositions submitted to the members.

ARTICLE EIGHT

MANAGEMENT

The corporation shall be managed by a house corporation board composed of at least seven members, subject to directions received from the _____ of the Delta Chi National Housing Corporation. Four of the members shall be local alumni members of The Delta Chi Fraternity, Inc. in good standing. The corporation board also shall have two representatives who shall be collegiate members of the Chapter in good standing. The _____ of Delta Chi National Housing Corporation may designate a different number and/or composition, if such action is deemed (by the Board of Delta Chi National Housing Corporation) to be in the best interest of the Corporation and Delta Chi National Housing Corporation. The election, terms of office, and duties of the officers of the Board of Directors shall be provided for in the Bylaws of this corporation.

ARTICLE NINE

ANNUAL MEETING

The annual meeting of this corporation shall be set forth in the Bylaws of this corporation.

ARTICLE TEN

AFFILIATION

The corporation is organized as an affiliate of Delta Chi National Housing Corporation, an Iowa not-for-profit corporation. The _____ of Delta Chi National Housing Corporation has approved these Articles of Incorporation as shown by his signature below.

No amendment to these Articles of Incorporation is effective without the written approval, as evidenced by this signature thereon, of the _____ of Delta Chi National Housing Corporation.

ARTICLE ELEVEN

BYLAWS

The members of this corporation shall have the power to enact, alter, amend, and repeal Bylaws for the governance of the corporation and its officers, not inconsistent with these Articles of Incorporation, the laws of the state of _____, and the CONSTITUTION of The Delta Chi Fraternity, Inc.

ARTICLE TWELVE

DISSOLUTION

No Articles of Dissolution of the corporation may be filed without the written authorization of the Board of Delta Chi National Housing Corporation, as evidenced by a certified copy of the resolution thereof appended to the Articles of Dissolution.

If the _____ Chapter of The Delta Chi Fraternity, Inc. ceases to exist because of charter withdrawal or otherwise, and it becomes necessary to liquidate or otherwise dispose of funds or property owned or held by the corporation for the use of the chapter, or if the corporation is dissolved, liquidated, or ceases to exist for any reason, all funds and property of the house corporation remaining after all debts and obligations have been paid shall be transferred to Delta Chi National Housing Corporation.

The names and addresses of the Directors of this Corporation, who have been elected or appointed to serve for the first year or until such time as their successors are elected and qualified, are as follows:

Incorporator

Incorporator

Incorporator

Approved: _____

Delta Chi National Housing Corporation

Delta Chi National Housing Corporation
314 East Church Street
Iowa City, IA 52245
Taxpayer ID # 31-1796930

FORM 1024

DELTA CHI NATIONAL HOUSING CORPORATION
OFFICERS AND DIRECTORS*

Name and Address	Title	Annual Compensation
Kenneth L. Shepard	Director, President	None
Hans Okerstrom	Director, Vice President	None
Mike Dichiser	Director, Secretary	None
Raymond D. Galbreth	Treasurer	None

*as of January 1, 2006