

## *Chapter Crysophylos Guide*

### AS CHAPTER CRYSOPHYLOS. . .

You are in charge of maintaining the fiscal stability of the chapter—a most important responsibility.

It is your responsibility to administer the chapter's finances wisely and keep an accurate and true account of all transactions. The enclosed information is designed to assist you in the performance of your duties.

May I suggest that you set for yourself six very important goals to accomplish this year:

1. To adopt and strictly adhere to a realistic budget approved by your Board of Advisors.
2. To reduce your Accounts Receivable to as near zero as is possible.
3. To make prompt monthly payments on all Accounts Payable and all mortgages against property.
4. Remit all initiation fees promptly so that the new members may receive their membership badges, Certificates of Membership, etc. as soon as possible.
5. File all state and federal tax reports on time to avoid penalties.
6. Make sure all initiate FORMS are filled out COMPLETELY to ensure timely processing of your members.

Do this, frater, and you will have served your chapter and TKE Fraternity well! Good luck. Let us know if we can be of further assistance to you.

Yours in the bond,

Tim Murphy

Timothy J. Murphy, CFC

Executive Vice President/CEO

A Continuing Series on Chapter Finance . . .

ARE COLLECTIONS A PROBLEM?

Having trouble collecting dues? Here are ten ideas which represent a composite of many collection procedures used by TKE chapters.

### REGULAR MONTHLY BILLINGS

This method sounds so obvious that many chapters overlook it completely. By sending every member a written statement of his bill each month, payment is more likely. A regular billing procedure is just as good a business practice. If you haven't tried it, take time to do it. Establish a series of friendly collection letters to follow-up delinquent accounts. In each case, leave the door open for explanations of any misunderstandings and set a definite date for action.

### DISCOUNTS

Grant a discount to men who pay in advance. You might permit a 10 per cent discount to any frater who pays his entire quarter or semester dues in the first ten days of the quarter or semester. This will also permit adequate cash at the onset of a semester when it may be needed most. When budgeting, the treasurer will have to consider the number of fraters who will take advantage of this feature because it will mean a reduction in income for the chapter.

### FINE OR PENALTY?

Probably one of the most widely used methods of aiding in dues collecting is the penalty or fine. Very simply stated, if you don't pay your dues, a fine or penalty is added to what you owe. Since this system adds an additional burden to fraters who are not able to pay, the treasurer should discuss the indebtedness with each man involved so that a schedule of payments may be set up.

### BOARD OF ADVISORS

According to the Black Book, a member in arrears financially may be brought before the Board of Advisors to explain his problem and present a plan of payment. While this may seem like a trivial matter for a chapter's Board of Advisors to work on, it is an important responsibility of the Board. The treasurer should turn to this approach if he is unable to work out a plan of payment with the frater on his own.

### LETTERS TO PARENTS

Another effective method may be a letter to the frater's parents. This method should be used only after you have tried to collect from the frater and have not been successful. It is also advisable to tell a frater that you will have to write his parents. Some chapters bill the parents instead of billing the member.

### NOTES

Once an obligation has been established, and especially if the frater is leaving the chapter, have him sign a note. This promise to pay must have a date, location, amount, reason for the indebtedness, and be signed. An account is much more collectible in the form of a note rather than an open account because the member has acknowledged the debt. In most states, a note for room and board is collectible even if a member is not of legal age because they are necessities.

## COLLEGE OR UNIVERSITY

Check with your college or university to see if they will hold diplomas, transcripts or grades until all obligations are paid. If they will, don't be embarrassed to give them your delinquent accounts and ask for help. If your college or university will not aid in this way, possibly your IFC could undertake this as a project.

## PRO-RATING

Pro-rating is a technique which is designed to aid a treasurer because it puts additional pressure on the debtor. At the end of a collection period, the amount owed by all members is divided up among all the fraters who have paid their bills. They must pay this additional assessment, but will receive credit for their share when all of the delinquent fraters pay up. The bookkeeping involved in this system is quite complex. The principle, however, is to have all members put pressure on the few who fail to pay past due accounts.

In effect, many chapters have pro-rating though they don't consider it as such. If a chapter permits members to pre-pay their dues and uses that money to pay bills, that chapter is pro-rating. When it uses this advance income, it is because other members still owe dues. As long as this condition prevails, the chapter is pro-rating.

## REPORTING

This is another obvious technique that is often overlooked. A treasurer report to the chapter each month should contain the names of the delinquent members along with the amount they owe.

## CONCLUSION

These ideas are presented with the hope that one or more of them may be new and helpful to you. If accounts receivable are a problem you cannot solve, notify the Offices of the Grand Chapter and ask for help. Don't let your programs go down the drain because of financial failing.

## COMMON SENSE SAYS

## BUDGET

A budget is a plan of operations reduced to dollars and cents-or is it common sense? Anyone you know who is successful undoubtedly is operating with such a plan; certainly any organization which wants to be successful must make such a plan. Our top chapters all have budgets which form the guidelines by which they will operate.

### WHY A BUDGET?

Actually the budget should be one of the easiest of chapter management plans to prepare. This is true because all phases of a chapter's operation are reduced to a common denominator-the dollar. A budget should be prepared for the purpose of establishing the course a chapter intends to follow for the next year. A budget reflects your sense of direction and reinforces your goals.

### HOW DO YOU SET A BUDGET?

Setting a budget is as easy as forecasting how much money you are going to get and how much you plan to spend. It should be subdivided into quarters, semesters or trimesters so that enough cash is available at all times. This approach indicates that outstanding accounts receivable at the beginning of the year will be no larger at the end of the year and that you will be able to collect cash from fraters for the full budgeted income.

### INCOME

The Crysophylos should consider this area as his most important one; for everyone will surely spend all he is allowed. If the budget is in balance at the start of the year and all planned expenses occur, the planned income must be there. Chapter income will come from three major areas-dues, room and board.

A dues income estimate is obtained by multiplying the number of fraters now present less seniors and a 10 percent factor for dropouts times the quarterly or semester dues times the number of quarters or semesters in the school year. If assessments are a way of life in your chapter and are used for a specific purpose, you may want to include both an estimated income figure, and an offsetting expense figure, so it will have no real effect on your budget.

The number of new initiates for the year should be estimated by the Prytanis, Rush Chairman and Hegemon, and possibly the entire Executive Council. The reason is that these numbers then become the chapter's targets for rush. While it is true that a bad estimate in numbers of new members may not hurt this portion of the budget, since the initiation fees may merely be repeated as an expense item, the effect will be felt through loss of dues later in the year. These new members should be included in the dues income for the number of quarters or semesters they will be active members.

The room and board figures may be obtained by the same multiplication process-number of men living in the house or number of meals served times the amount charged times the months, quarters, semesters or number of meals served.

Several words of caution on rent and board; do not use one hundred percent occupancy to break even. If you do, chances are very good that your chapter will be paying house expenses out of general chapter funds before the end of the year. Use 80 to 85% of house capacity to cover all expenses. If you do have more than 85% occupancy, you can always get that extra sofa, stereo set or new drain pipes with the extra rent income. If meals are compulsory, your commissary income forecast is rather easy, since you know how many fraters to count on. If meals are not compulsory, use what history is available in preparing estimates.

Other types of chapter income may be budgeted if they have occurred in the past, or are planned for the next year. Examples of this are dances, sponsored events, pop funds, etc.

## EXPENSE

Some areas of expense are the responsibility of the Crysophylos, others should be shared with appropriate committee chairmen or officers. The logic of this approach is the involvement of as many officers as possible and the support to be gained for expense controls. The Crysophylos must have some historical records as well. When he sits down with a new officer he must be able to answer the question:

What did we spend last year?

Areas which he is usually responsible for include house payments, insurance and tax payments (if they are not included in the house payment), annual membership fees, liability insurance fees, and initiation fees, house mother's wages, other employee costs. These expenses are of a reasonably fixed nature and should be prorated for even before committee budgets are considered. All committee budgets should then be added to the fixed expenses and the totals compared with budgeted income. If expenses exceed income, the Crysophylos should present this picture to the Executive Council with recommendations as to where reductions can be made. The Executive Council must then agree among themselves which committees will take reductions.

In some chapters, the house budget and commissary budget are prepared separately. The Crysophylos, or a member of his committee, should be involved so that a total chapter operating budget may be compiled.

## WHO SEES A BUDGET?

Once the financial plan of operations is prepared, it should be submitted to the chapter's Board of Advisors for approval. This step is required according to the Black Book and should be done to prove to your Board that yours is an organized chapter. The Board should require periodic reports against this budget so that they can see how well you are

progressing on the plan. A decline in income from budget, or an out-of-line expenditure level for rush, socials or activities will stand out for corrective action by this technique.

Copies of this budget may be required by campus officials and are definitely a requirement of the Offices of the Grand Chapter. The Fraternity requirement has twofold purpose: 1) to be able to tell the world how big Tau Kappa Epsilon is in terms of dollars and 2) to aid the TKE professional staff in offering financial guidance where needed.

#### ARE BUDGETING TECHNIQUES UNIFORM?

The suggestions given in this article are merely designed to advance ideas. In some chapters, a business manager or an outside paid accountant may be responsible for preparing the budget. In other chapters, the Board of Advisors and/or Chapter Advisor may prepare the budget. None of these approaches are wrong. It is believed, however, that the more the fraters who are affected by the budget are involved in its presentation, the more they will live with "my budget."

#### TECHNIQUES

If it is possible to use the TKE accounting system and forms, a budget and reports against it can be very easy to prepare. This is true since the account numbers on the budget forms, report forms, and actual ledgers all coincide. The ledgers may also be separated into sections for chapter operations, house operations, and commissary operations or any combination of them. The list of accounts is in no way designed to be restrictive and may be expanded to meet any chapter's specific events or activities that are not covered.

Budgeting techniques may vary but the results of a carefully prepared budget and the effective utilization of that budget is universal—a good chapter, well managed and planning well for the future.

#### FINANCIAL PLANNING!

## IS IT NECESSARY?

Every goal set by an individual chapter or Board of Advisors requires some degree of related financial planning to attain it. This is a very all-inclusive statement, but one which is true at some time during the drive to achieve any specific goal.

## WHY PLAN?

Let's look at several phases of a chapter's operation and see why financial planning is vital.

**HOUSING**—If a chapter does not have a house and is permitted to have one, that chapter might have a real need for a house. If the chapter has inadequate, or outdated housing, it has a real need for new or improved housing. Finally, even if a chapter is adequately housed now, it has a need to be providing for improvements, modernization, and maintenance at some time in the future if the chapter is to continue to maintain competitive housing on campus.

**FURNITURE AND FIXTURES**—This is another area in which planning and the related buildup of funds is necessary for continued success, competitive position and chapter morale. Every chapter has needs in this area, needs which cannot be filled with wishes or dreams.

**CHAPTER ACTIVITIES AND OPERATIONS**—Even in the fairly routine area of regular chapter activities, financial planning is required to aid a group in attaining goals and objectives.

## WHO SHOULD DO THE PLANNING?

The area of financial planning should be the responsibility of the Crysophylos and Board of Advisors, but while these are the individuals who may have to present the plans, their efforts are only as good as the direction they receive from the entire chapter and alumni. Similar to the role of the rush chairman in rush, these individuals are the financial planners. The chairman prepared a program which is endorsed by the chapter. They, in turn, assist him in carrying out the terms of the approved budget.

In matters of housing plans, the Board of Advisors are the people legally accountable for the financial arrangements for a chapter house, but they are not expected to have sole responsibility for the planning of a chapter house. The chapter must express itself with a mature proposal of needs and requirements, including a proposed plan of operations—a chapter house operating budget.

When the need is new furniture or improved chapter facilities, once again the Board may be legally accountable, but once again the chapter must make the plans. This planning is not only a sign of maturity, but also usually a relief to members of the Board of Advisors who do not want to dictate how quarters should be furnished. Who is in a better position

to know how things are going than the men who are there every day? Such items as inadequate heating, unsafe wiring, poor lighting are high priority items which demand immediate attention. Suggestions from members or from inspectors about inadequacies in these areas should receive immediate consideration.

For regular chapter operations, committee chairmen and officers may be held accountable for the planning but again the success of their goal setting, and related financial planning, rests on the ideas of and support from the entire chapter. The Board of Advisors should review the overall chapter financial plan, or budget, and approve this dollarization of goals for the next year. They should then review this plan by means of a semi-annual, or semester, report of actual operation against the plan.

#### HOW DO YOU PLAN?

The most obvious method of planning is to budget by determining the cost against and related income.

#### BUYING A HOUSE-NEW OR OLD

Housing plans must be twofold-HOW DOES A CHAPTER FINANCE A HOUSE? - AND - CAN THE PROPOSED HOUSE CREATE SUFFICIENT INCOME?

The first area must involve the Board of Advisors, alumni, the International Fraternity and the chapter in a coordinated financial planning effort. The Board, working with the chapter, should establish the need for housing, then review the buy-and-renovate approach or build a new house. It is also important to check zoning, determine financing requirements, review proposed chapter operating plans, find sources of funds, let contracts, and establish adequate levels of insurance protection.

Establishing the need is something which the Board and the chapter must agree on at the very start of any planning. While this statement seems so obvious that it shouldn't even be necessary to mention, a number of chapters have started a proposal on their own only to discover that their Board of Advisors, who must sign all legal documents, are unaware of any plans and become hostile because they were not included in the initial planning stages.

Several chapters will say, "the Board never does anything." However, if the chapter approaches its Board with the need plainly spelled out, the Board will listen.

The buy-and-renovate existing property, or build new, decision is one in which availability of property adjacent to the campus is a factor. Can the chapter be without facilities for an extended period of time, if the decision is to tear down and rebuild on existing property? Are any properties available that may be remade into adequate fraternity housing?

A very vital consideration is the zoning of the proposed area, either for buying an existing structure or building a new one. If the Board finds the zoning is not proper, they must take immediate steps to get proper zoning.

Once the plans for housing have been agreed on and the zoning has been cleared, the Board should first review the proposed chapter house operating budget feasibility, and then contact contractors or outside sources. It is suggested that an outside contractor do this coordinating unless the Board has a man who can devote full time to the renovation.

Financing requirements should be worked out by the Board, using the assistance of the chapter, local sources, alumni, and the International Fraternity. The chapter must aid in establishing the need, deciding housing facilities and, most important, prepare a realistic operating plan for the house.

## BUDGET

While the subject of budgets has been previously mentioned, it bears repeating here with regard to a chapter house budget. Don't even contemplate a house that will house more men than your chapter has ever had-unless you have realistic plans for increasing your membership or are willing to plan on outsiders living in the house. This requirement is dictated by the size of payments needed to meet regular mortgage principal and interest. Once the house capacity has been established, use an 80 to 85 percent occupancy for breakdown operations. The chapter that budgets under the assumption of full occupancy for the entire year is going to use other chapter operating funds to pay house expenses before the year is over.

The amount of rent should be established based on competitive conditions-What are other fraternities charging, what are dorms charging, what are outside apartment rates? There is not good reason why a fraternity rent rate need be less than the competition, however. The expense side of the budget should include the fixed expenses of mortgage payment, insurance, taxes, housemother, if required, plus her payroll taxes. The balance of the expenses are those which vary with occupancy such as linen, operating supplies, utilities and repairs and maintenance. These repair and maintenance items include those requirements which occur in the regular course of events.

If this proposed operating plan is carefully thought out and presented, it will go a long way towards encouraging a Board of Advisors to work with its chapter and will aid in obtaining required financing.

## FURNITURE

Planning for furniture for a new house or an existing one requires much of the same discipline referred to above. Need must be established, financial limits known and plans made to obtain funds. This is the area where local and/or previously obtained funds should be used. This is true because house financing sources will invariably take

mortgages on property only-not furnishings. Usually a chapter house fund should be counted on for furnishings as well as for a down payment.

The Board again should carefully review all plans and inspect the the furnishings. They should exercise this prerogative to insure vendor reliability, not to dictate sources. The Board should require a review of several sources to help insure a choice while getting the best deal possible. While the chapter's taste and interests may be served, their prime consideration should center around durability, cleanability to appearance.

## MONEY FOR NORMAL OPERATIONS

Planning for general chapter operation once again goes back to the preparation of a chapter operating budget. While the Crysophylos is held responsible for the budget, he must involve every committee chairman or officer so that the total plan is a "WE" plan, not a "THEY" plan.

Of course, a new officer or committee chairman can lay out all the plans he wants and may even be able to put dollar estimates with the plans, but he will invariably ask the Crysophylos,

How much did we spend last year?

This question, properly answered, is another proof of a good chapter with adequate records and plans. From these initial meetings and plans, the Crysophylos, who has also been working on the income side of the operating plan, is able to prepare the budget for review by the chapter and Board of Advisors. From this operating plan the chapter has a financial course set towards achieving its overall goal of "tops on campus."

## IDEAS FOR FINANCING A CHAPTER HOUSE

Our house is not adequate

We cannot compete because of our house

What would really help spirit in this chapter would be a new house

We've got to keep up with competition

These are familiar comments to those men who visit our chapters.

This will give some ideas in the area of financing the entire housing proposal.

## RESPONSIBILITY

It must first be reiterated that the Board of Advisors is responsible for the house. The chapter has the obligation to maintain the house, but the Corporation has the obligation to solve the chapter's housing problem. While this statement may seem obvious, it bears repeating for the Board of Advisors is the legally constituted group which will sign any long-term obligations on behalf of the chapter. These comments are designed primarily to give ideas to Chapter Advisors and/or Board of Advisors members who are dedicated to the growth of their chapter.

## HOW MUCH?

Regardless of the buy-and-renovate or build-new approach, the determination of the amount of the initial cost outlay is vital. If the decision is buy-and-renovate, evaluate the present structure carefully checking the heating and/or air-conditioning systems, the wiring, the plumbing, basic floor, walls and ceiling conditions, plus any major renovation requirements, such as addition of a house-mother's suite, additional washroom facilities, enlarging the dining room area, or the chapter room.

If the renovation is considered major, it is advisable to hire a general contractor so that one person or company is under contract to coordinate the various renovation phases to meet a deadline for occupancy. A general contractor can give an estimate of total renovation cost. An architect should be involved in the planning of any new house construction.

Though different parts of North America have different economic conditions, the following idea may be tried in specific cases as a quick way to determine the cost involved for a specific house plan:

Value of the lot, plus \$12,000 times the number of men to be housed plus \$50,000 for the kitchen facilities. If the lot sold for \$20,000 and if the house is to sleep 47 men, its cost would be about \$634,000 ( $\$12,000 \times 47 + \$50,000 + \$20,000$ ). Don't forget in your financial planning the cost of the architect's fee which may range from six to 12 percent of construction cost.

Another vital consideration is the amount required for furniture and fixtures as compared to the amount required for land and building. A detailed cost breakdown showing cost of construction, furniture, etc. will be required for determination of the amount of the mortgage, since a lending institution will very seldom include furniture and fixtures in a first or second mortgage.

## FROM WHERE?

The actual construction, or renovating, financing will usually come from mortgages. Tau Kappa Epsilon encourages chapters to arrange local financing wherever possible. This not only builds local autonomy, but also helps establish much-needed local credit.

There are basically four types of financial institutions you can approach in your quest for the best type of mortgage.

1. Commercial Banks - make mortgage loans along with their other services.
2. Savings & Loan Associations - Mortgage loans are their chief sources of business. In fact, government regulations greatly limit the other types of loans they make.
3. Mutual Savings Banks - in some areas, have become a major source of mortgage funds. As with savings & loan associations, competition keeps interest rates and other terms as liberal as possible.
4. Mortgage Banker - Any type of bank may be listed as a mortgage banker.
5. TKE International- can assist your chapter's Board of Advisors in securing a first mortgage through the National Cooperative Bank, with no brokerage fee charged by TKE. This is done as a member service to you; simply contact The Offices of the Grand Chapter for an application packet. The loan application process is standardized.

In addition, there are independent mortgage companies and mortgage brokers who may be set up to handle your situation. Beyond this, there may be a number of miscellaneous possibilities and some insurance companies make mortgage loans.

Other sources which should be utilized to the fullest either for the house mortgage, or for furniture and fixture money, include chapter building funds, chapter financing drives (such as sponsoring of major concerts or shows), alumni solicitation through brochures and personal contact and local sources.

Each chapter should have an established building fund into which the chapter deposits a set amount each year. These funds are deposited into a savings account to draw interest and be available for major housing projects. Community fund raising projects have raised several thousand dollars for building funds.

In some cases, mothers clubs or alumni have helped out considerably in this type of project. Alumni solicitation may take the form of a concentrated drive in which a team must be organized, goals set, brochures and other literature prepared and deadlines set. Usually a kickoff program is planned to which alumni are invited to be in on the new plans. Each attendee should then be encouraged to contact some members of his graduating class. A follow-up on such a drive is essential to its success.

Another idea which involves all members of the chapter, active and alumni alike, is the signing of house building fund notes when the member is initiated. At that time the member agrees to pay over a given number of years starting at graduation a set number of dollars, equally divided over the given number of years. Example-a member initiated in the fall of 1999 who graduates in the spring of 2003 pays \$100 into the chapter house fund by signing five notes of \$20 each with the first one due at graduation and one each year for the next four years.

Local sources are those rare examples of an individual who is impressed with a chapter, its need, its planning ability and approach and agrees to help the chapter out. In such cases, as philanthropic as the approach may seem, be sure the individual is financially sound and that any agreement is in writing, for the man who establishes such an agreement may not be the same one who is around throughout the life of the agreement.

Regardless of the source of funds, there are nine mortgage features to check on and carefully consider in making a choice:

1. Amortization - The typical mortgage of today is amortized (i.e. paid off) in equal installments through the entire course of the loan. In some mortgages the installment goes up-or down-after several years. Others have a so-called balloon at the end of the repayment period - a large amount of the principal that must be repaid in the final installment. For most chapters the ordinary mortgage with fixed monthly amortization is best.

2. Interest Rate – Shopping is particularly important here, because of a small fraction on the interest rate can make a difference in hundreds of dollars over the life of the loan.

3. Repayment Term - The longer the term of the mortgage, the lower the monthly payment and the greater amount of total interest. Most institutions will not make a loan for more than 30 years, which may make steep payments.

4. Monthly Payment - The monthly payment, of course, is determined by three factors - the amount you borrow, the interest rate, and the repayment term.

5. Escrow Account - Usually the mortgage lending institution will require an additional monthly payment for an escrow account for insurance on the house and for real estate taxes. Most borrowers consider this a budgeting convenience, but a person should find out in advance just what the repayments are. Payments should be just large enough to make tax and insurance payments as they fall due - and no larger.

6. Prepayment Penalty - Nearly all mortgages call for some type of penalty if the mortgage is paid off in the early years. A chapter would have to pay a portion of the interest the lender would have collected in the full life of the mortgage. Even not foreseeing such a possibility, you should try for as liberal a prepayment clause in the mortgage as possible; probably it can be arranged so there will be no penalty after five years.

7. Assignment - A good idea is to make sure the mortgage can be readily assigned to a second buyer in case you find it necessary to move.

8. Open End Clause - This clause in a mortgage will permit a person to re-borrow the amount of the loan that has been paid up, or some portion of it. This makes an easy and low cost way to finance remodeling.

9. Closing Costs - There are always closing costs in connection with a mortgage, to compensate the lending institution for its attorney's fees, title search, and other expenses. These can vary by several hundred dollars.

When contacting prospective lending institutions, it will probably be necessary to show them good quality blue prints of the house you plan to build. The lender will want to include on set of blue prints in his files on the transaction.

As important as arranging the financing is, it bears repeating here, that the timetable of the entire project is even more vital. The FIRST obligation of the Board of Advisors is to establish with the chapter and college or university the need for new housing. NEXT make the selection of by-and-reno-vate an existing structure or build a new one either on the present chapter house site or on a new one. NEXT, verify zoning; then get plans and work with the chapter on an operating budget. The arranging of actual financing may be going on concurrently, but doesn't need to be finalized until the above steps have been worked out. The Board of Advisors must have adequate insurance coverage. Coverage should include not only fire and extended coverage on building and general chapter contents but liability insurance as well. The members living in the house should also have the status of their own personal belongings explained so that they know whether they are covered by their chapter's policy or whether they should have coverage of their own.

## POTPOURRI: THE FINANCIAL GAMUT

In concluding this series of articles on Chapter Finances, several other areas deserve consideration.

## INCORPORATION

It is a requirement that each chapter of Tau Kappa Epsilon be incorporated as a non-profit corporation in the state in which it exists. This requirement is designed to limit the liability of each of the individual members in the event something occurs at a fraternity-sponsored event. If the chapter has not incorporated, the members and alumni of the chapter may be held liable. . .jointly or individually. While such an occurrence is unlikely, as long as the possibility exists and protection is this easy, it should be done.

Officers of the corporation will be the members of the chapter's Board of Advisors. Membership in the corporation will consist of all members of the chapter, undergraduate and alumni alike.

A SUMMARY OF THE MEETING ("Minutes") should be kept by the corporate officers so that a record of all actions is always available to anyone requiring it. All taxes, insurance, and other financial matters regarding chapter property are conducted by and through the corporation.

## INSURANCE

Various types of insurance will be mentioned in this section. Some may apply to your chapter. If so, you should make sure of coverage. If some do not apply to you, they may in the future.

**Liability.** As with incorporation, every chapter should have liability insurance. This insurance has a relatively inexpensive premium for large coverage, so it is not a great burden on an operating budget. A million dollar lawsuit against a chapter for alleged or real damages to an outsider would not prove as workable in a budget, however. In today's economy, damages claimed and related legal fees to defend, would be an insurmountable burden on a fraternity chapter. In obtaining the liability insurance, make sure members are covered, as well as non-members. Your Board of Advisors should work with the chapter to make sure this coverage is adequate.

The insurance coverage you purchase through the International Fraternity is for your chapter's **COMMERCIAL GENERAL LIABILITY INSURANCE POLICY**. This is the indemnification policy to cover your chapter in the event you are sued, or that a potential plaintiff threatens to file a complaint against you or your chapter.

**Fire and Extended Coverage.** Any chapter which has housing, or even a location at which the chapter has furniture, should have reasonable fire and extended coverage insurance on building and contents. Once again, utilization of your Board of Advisors is urged to insure proper handling of this most vital area. Loss through fire that is not covered by insurance would be disastrous.

Limits and amount of coverage should be established by the Board with the advice of a qualified insurance counselor. It should also be established whether the property of the individuals living in the house is covered or not. If not, which is generally the case due to prohibitive rates, the individuals should be told at the time they move in. They should then check with their parents as to whether the parents have a home owners policy which will properly cover them.

**Workmen's Compensation.** This type of insurance is mentioned for any chapter which has work done on its house by outside contractors. When a contract is let for work, the chapter or Board of Advisors should make sure that the contractor has a workman's compensation insurance policy in force before he starts to work. As long as he does, the

chapter cannot be held liable for an accident to an employee of the contractor. This insurance does not cost the chapter anything, merely insures coverage for contractor's accidents.

**Bond.** Bond insurance should be taken out by each Board of Advisors on its own Treasurer, as well as the chapter treasurer, or any other officer who may handle substantial sums of money. This bond is in no way a reflection on the honesty of any incumbent, it is merely a precaution against future temptations. To achieve protection under the bond, a chapter must insure itself that adequate records are established and maintained so that proof of loss may be ascertained through reasonable business practices.

## BANKING PRACTICES

In this general category are included checking accounts, signatures, use of savings accounts, petty cash and approvals.

**Checking Accounts.** Every chapter should have a checking account to record its transactions. While this seems obvious, it is worth stating to remove any doubt. There is no record of payment of a bill as effective as a cancelled check. Deposits should be made frequently to prevent accumulation of cash in the Treasurer's possession. If possible, a sufficient balance should be maintained to eliminate service charges. Rectification of the check book to the bank statement should be done monthly to insure proper accounting of a cash balance.

**Signatures.** While this point is a part of the checking account procedure, it is so important that it is set out for comment. All checking accounts must have two signatures. This means that two signatures must be required before the bank will honor a check. This simple procedure does not greatly slow down the paying process but will reduce the opportunity of poor business practices that are present if only one signature is required. If at least two of the three officers authorized to sign checks are conscientious in the performance of their duties, no delays in payment should result.

**Savings Accounts.** Whenever possible, funds received in excess of current quarter or semester needs, should be placed in a savings account so that interest may be earned on them. The establishment of a savings account helps by keeping the chapter's money working for it.

**Petty Cash.** Every chapter should maintain a small petty cash fund so that small, daily needs may be met. No money should be disbursed from the petty cash fund, however, unless a receipt is turned in and signed by the man turning it in. When the funds are depleted, the receipts should be summarized and turned in to the chapter's records by means of a regular check made out to petty cash and charged to the various expenses receipts. The treasurer will then cash the check and replenish the petty cash fund.

## EXPENSE CONTROL PRACTICES

Approval of budgets represents the endorsement of a plan for the chapter for a given time period. Approval should also be required for the actual expenditure of money even if it is within the budget. Unlike petty cash mentioned in the previous paragraph, the charging of items requires a different set of rules. If specific items such as bands, halls or other single items are contracted for, the member making the contract should get either approval for a billing, or a check to pay the bill from the treasurer, or his designee, before making the commitment. (All contracts should be reviewed and approved by the Board of Advisors before being signed.) If a standing charge account is opened by the chapter at a local hardware, grocery or similar store, the treasurer's, or his designee's, signature should be on the order before the vendor accepts the charge. It is the obligation of the treasurer to notify this type of vendor of authorized signatures at the start of his term. Any other charges permitted by the vendor should be either rejected by the treasurer, or charged back to the individual signing the order if it was not authorized.

### WAGE LAW REQUIREMENTS

If the chapter has paid employees (including officers), withholding tax and Federal Insurance Contribution Act deductions must be made and remitted quarterly to the District Director of Internal Revenue in the chapter's district. Check with your Board of Advisors for information on proper rates and forms. This requirement should be explained to employees, as well as officers, so that they are aware that withholding tax and FICA have been taken from their check. In addition to the submission of Form 941, Employees Quarterly Federal Tax Return, a check for the amount withheld and the chapter's share of the FICA payment should be enclosed. Annual W-2's must also be supplied to the employees. The Board should also be aware of possible State and Federal unemployment taxes under various regulations and the possibility of State income tax.

### HOUSING CONTRACTS

Anyone who lives in a chapter house should be required to sign a housing contract BEFORE moving in. A sample contract form is available from the Offices of the Grand Chapter and may be tailored to your own chapter needs. It is good business practice to require this contract both for financial planning and establishing a sense of personal responsibility. A vital inclusion in any contract is a deposit, which will be refunded when the man moves out, if an inspection at that time warrants it. Other features may be obtained from the sample.

Members who share the financial responsibilities of the chapter have a real opportunity to affect the future of the chapter.

### FINANCIAL STABILITY: A MUST

By Dr. William V. Muse, CFC, Past Grand Prytanis

What is the most important factor in the success of a chapter? A strong brotherhood? Good leadership and management? A large number of men? A nice house?

All of these factors are important and may even be critical for a particular chapter. However, one of the most overlooked factors-by the average chapter member, at least-is good financial management or financial stability.

Two mistaken impressions often exist among chapter members: (1) that financial matters are entirely the concern of the Crysochylos, and (2) that financial management consists of keeping a good set of records. Both statements are erroneous and dangerous to the health of a chapter.

Financial matters should be a concern of every man in the chapter and especially so to each officer. One of the chief reasons for the failure of many chapters is poor financial management-large number of fraters not paying their bills, expenditures in excess of income, deterioration of physical facilities, cancellation of events, etc. Every man in the chapter has a stake in his chapter's future success or existence and, therefore, has a right to know how his money is being spent. He should insist that it is spent wisely.

Although an accurate record of all income and expenditures following some acceptable format is important, good financial management is much more than this. The essence of financial management is (1) planning, and (2) control-developing a budget (plan of income and expense) and establishing procedures to insure that expenses do not exceed budgeted amounts.

As a member of office of your chapter, here are a few things that you can do to increase the probability that your chapter will be financially stable:

1. Insist that a budget be established at the beginning of each school year and, possibly, modified at the end of each semester or quarter. A budget is simple to formulate and understand. (Income = number of men x \$ per quarterly semester; expenses are categorized by area - social, rush, etc.-and can't exceed the income available.) Yet, it is essential. The total of all budgeted expenditures should not exceed 90% of the projected income. At least 10% should be reserved for emergencies - over-estimated income, non-payment of dues by members, unexpected expenses, etc.

2. Require a written financial report from the Crysochylos periodically - at least once each quarter (three months). This report should show what income has been received and where the money has been spent, with the expenditures in each area being compared to the budgeted amounts. It is your money! You have a right to know how it's spent.

3. Make sure your chapter has some sound financial policies in these areas:

- A. Payment of dues - A definite schedule for payment with stated grace period. All persons not paying by the end of the grace period lose all membership privileges until the

dues are paid. You do your chapter and the individual involved a disservice by allowing him to enjoy the benefits of the fraternity without paying his fair share of the costs; this is poor training for the future-in both family and organization financial affairs.

B. Budgeted Expenditures - No committee or individual can spend more than the budgeted amount for his area unless someone else agrees to a reduction in the amount budgeted to them. It is the responsibility of the Crysophylos, through good record keeping, to make sure the budget is not exceeded.

4. Establish a Finance Committee composed of several people in the chapter to (a) help draw up the budget, (b) to formulate and enforce financial policies, and (c) offer advice on financial problems.

5. Involve the chapter's Board of Advisors. The Board of Advisors, often composed of businessmen knowledgeable in financial affairs, should be the chapter's watchdog in all financial matters by (a) approving the chapter's budget, (b) getting copies of all financial reports, (c) approving all expenditures for capital improvements (new furniture or equipment, repairs or remodeling of house, etc.), and (d) being consulted on all major financial problems.

All of these points are important, regardless of whether or not a chapter has a house. Obviously, these financial rules would be doubly important in situations where the chapter operated a house and/or kitchen in that amount of money being handled or managed would be considerably larger.

No organization that operates on a financial base (i.e., has to purchase goods and services for its members), whether it be a fraternity, a university, or a business firm, can survive without good financial management.

#### FIGURING THE MINIMUM NUMBER OF NEW MEMBERS NEEDED

A. Total expenses including reserves and profits

(Take this from your budget) A. \_\_\_\_\_

B. Kitchen income

(Take this from your budget) B. \_\_\_\_\_

C. Social income

(Take this from your budget) C. \_\_\_\_\_

D. Total of line B and C D. \_\_\_\_\_

E. Subtract line D from line A E. \_\_\_\_\_

F. Average charge to members for room F. \_\_\_\_\_

G. Divide line E by line F G. \_\_\_\_\_

H. Membership of the chapter predicted to be not living in the house H. \_\_\_\_\_

I. Total of line G and H I. \_\_\_\_\_

J. Number of sophomores predicted to be affiliated with the chapter at the start of the school year J. \_\_\_\_\_

K. Number of juniors predicted to be affiliated with the chapter at the start of the school year K. \_\_\_\_\_

L. Number of seniors predicted to be affiliated with the chapter at the start of the school year L. \_\_\_\_\_

M. Number of boarders not members of the chapter expected to be living in the house at the beginning of the school year M. \_\_\_\_\_

N. Number of vacancies expected in the house at the beginning of the school year N. \_\_\_\_\_

O. Total of lines J, K, L, M, and N O. \_\_\_\_\_

P. Subtract line O from I P. \_\_\_\_\_

Q. Standard freshmen retention rate of your chapter Q. \_\_\_\_\_

R. Divide line P by line Q

This is the minimum number of new members needed

by your chapter on the first day of the school year R. \_\_\_\_\_

One of the finest services for TKE chapters is the \$10,000.00 Fidelity Bond.

While losses due to misappropriation of chapter funds is infrequent, and most have been under \$2,000.00, some chapters have been severely hampered by a fraudulent act of a chapter Crysophylos.

The TKE \$10,000.00 Fidelity Bond was especially developed to meet the needs of our chapters. We hope the questions and answers following will explain the bond to you.

Because of the difficulties experienced by some chapters of TKE, an "Acknowledgment of Duty" has been prepared for use in having the Crysophylos of a chapter sign a specific statement acknowledging his specific responsibilities. This comes to every chapter in the fall chapter mailing. If you'd like a copy for yourself earlier, or have misplaced yours, please contact the Offices of the Grand Chapter for one to be mailed or faxed to you. Also, for your convenience, you may print off the one on the following page.

This FIDELITY BOND is purchased for your chapter at NO ADDITIONAL COST to your chapter or members. This is done as a member service designed to protect your chapter from dishonesty-related losses or theft of chapter funds. Tau Kappa Epsilon is the only Fraternity who provides this protection for its chapters.

Basically, this fidelity bond will reimburse the chapter for money stolen or misappropriated by an officer, PROVIDING ALL NECESSARY CONTROLS WERE IN PLACE. This includes dual-signature checks, monthly rectification of the books, and all other proper financial controls earlier outlined. Hopefully, you will never need this protection, but it could happen to you. If you suspect a theft, alert your Chapter Advisor and Board of Advisors right away.

## Tax Liability of Undergraduate Chapters

### 1. SOCIAL SECURITY TAX (FICA)

Wages, for purposes of FICA, means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash, such as meals or

lodging. Subject to the following exceptions, chapter corporations are required by law to pay Social Security (or FICA) taxes with respect to all wages paid employees, including non-student employees performing domestic chores (housemothers, house boys, maids, cooks, janitors, handymen, etc.). Wages paid to students performing domestic service who are enrolled and regularly attending classes are exempt from FICA taxes. Also, wages paid by chapter corporations exempt from income tax to employees who receive less than \$100 in wages during the calendar year are exempt. Finally, meals and lodging furnished by a chapter corporation, the value of which is excludable from gross income by an employee under Section 119 of the Internal Revenue Code, are not wages for purposes of FICA. Whether Section 119 applies to meals and lodging provided to a certain employee depends on whether they are furnished for the convenience of the chapter and on other facts and circumstances. Chapters should, therefore, consult their attorney to determine the application of this exemption to the current year, as well as about the possibility of refunds for FICA taxes that may have been paid in recent years with respect to meals and lodging that are not FICA wages under this rule. The tax must be paid regardless of the age of the employee, even for those already collecting Social Security benefits.

The appropriate amount of FICA tax is deducted from the employee's salary and, in addition, the chapter must pay a FICA tax on the employee's wages. For calendar year 1990, the FICA tax rates will be 7.65% on employees and on employers, for a total of 15.30% of wages taxable under FICA. The chapter corporation is required by law to deduct the amount of the tax on an employee's wages from his pay, even if the employee objects to the chapter's payment of the tax and reporting of the earnings to the IRS. The chapter corporation and its officers and employees who are charged with the duty to collect the tax may be held civilly and criminally liable for willfully failing to collect and pay the tax or willfully attempting to evade or defeat the payment of the tax. Failure to file any tax return by the date it is due, unless due to reasonable cause and not willful neglect, will result in liability not only for the amount owed, but also for a penalty for each month or fraction thereof during which the failure continues. There is no limit on the time during which the IRS may assess unpaid FICA taxes if no return was filed for the period during which liability for those taxes arose.

## 2. INCOME TAX

It is not required or necessary to withhold federal income taxes from cooks, maids, housemothers, houseboys, janitors, and waiters or any other persons employed in domestic service, but chapter treasurers, house managers, stewards and other officers are not exempt from withholding and federal income taxes must be withheld.

Every chapter required to withhold income tax from wages or who is liable for Social Security taxes must file a quarterly return on Form 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN. This form and complete information on how to prepare it may be obtained from the Offices of the Grand Chapter. The calendar quarters to be covered by Form 941 and the dates on which the returns and tax payments are due, are as follows:

Quarters Quarter Ending Due Date

Jan-Feb-Mar March 31 April 30

Apr-May-June June 30 July 31

July-Aug-Sept Sept 30 Oct 31

Oct-Nov-Dec Dec 31 Jan 31

### 3. FEDERAL UNEMPLOYMENT TAXES (FUTA)

A chapter corporation will be considered to be an "employer" required to pay tax under the Federal Unemployment Tax Act ("FUTA") with respect to domestic service employment in any calendar year if it pays domestic employees as a group \$1,000 or more in cash in any calendar quarter during that calendar year or the preceding calendar year. If that test is met, it will be subject to FUTA with respect to all "wages" (generally defined in a manner similar to the FICA definition) paid domestic service employees during that year. Unlike FICA, FUTA does not exempt wages paid to students performing domestic service. Like FICA, however, FUTA does exempt from "wages" meals and lodging to the extent the value of such is excludable from gross income under Section 119 of the Internal Revenue Code. Again, as with FICA, chapters should consult their attorney about this exemption. To illustrate the applicability of FUTA to domestic service employment, assume a chapter corporation pays \$800 in cash for domestic services in each quarter during 1990 and 1991, except for the quarter ended December 31, 1990, when it paid \$1,000 in cash for such domestic services. The chapter corporation will be liable for FUTA tax on all wages paid for domestic service during 1990, including wages paid in the three quarters during which less than \$1,000 was paid for such service. Furthermore, all wages paid for domestic service in 1991 would also be subject to FUTA even though less than \$1,000 was paid in each 1990 quarter, because \$1,000 was paid in a quarter during the preceding calendar year for domestic service.

A chapter corporation may also be considered to be an "employer" required to pay FUTA tax with respect to employment other than domestic service employment if, during either the current or preceding calendar year, (a) it employs at least one employee (not counting domestic employees) during some portion of 20 calendar weeks or (b) it pays "wages" for services other than domestic services of \$1,500 or more during any calendar quarter in the current or preceding calendar year.

Chapter corporations that are "employers" need not pay FUTA tax with respect to wages paid to any employee for services performed in a quarter in which that employee did not earn at least \$50, provided that the chapter corporation is exempt from income taxes. Any worker not earning at least \$50 in any quarter is not required to be counted as an

"employee" during that quarter for purposes of determining whether the 20-week requirement for being an "employer" is met. Furthermore, that part of wages paid any employee in excess of \$7,000 in any given year is not subject to tax under FUTA.

Any chapter corporation that pays wages during 1991 subject to FUTA taxes must file Form 940 on or before January 31, 1992. The instructions on the Form specify where it should be filed. The chapter corporation must enclose payment for the tax due with the Form 940. Few chapter corporations will be required to make deposits of FUTA taxes. Those that are required to make these deposits should obtain a copy of Circular E for more information, which is available from any IRS office without charge.

Additionally, each state has enacted an unemployment tax statute. These statutes will impose separate reporting obligations, and chapters should check with the Department of Revenue or the Employment Security Division of their state or with their accountant or attorney to obtain the required state forms. Most, if not all, unemployment taxes paid to a state will be a credit against the federal FUTA taxes.

#### WHERE DO I GET THE FORMS I NEED?

All Internal Revenue Service forms can be obtained at most United States Post Offices, especially during "tax season".

However, with the Federal Government using more of its agency web sites to ease consumer burdens, you may visit [www.irs.gov](http://www.irs.gov). These forms should be in a downloadable format on the agency web site.

If you are unable to do so for any reason, look up the Internal Revenue Service in the "blue pages" (government offices section) of your local telephone directory. Call and request forms to be sent or faxed to you.