

## **Finances and Fund Raising for Local Alumni Corporations Introduction and Summary**

Many AGR alumni corporations have not established proper fund-accumulation procedures. The result is an “over taxation” on undergraduates in college during building or re-building years and hurried, often desperate, and usually ineffective major fund raising campaigns.

Several methods exist to alleviate this problem. Carefully monitoring rent structure and making frequent justified increases is the most desirable. Requiring monthly “building fund” payments by undergraduates is also effective. Establishing effective fund raising programs is another alternative.

Tax deductibility is important to fund raising and gifts to chapters and local alumni corporations usually don't qualify. The best “deductible” route available is the Educational Foundation of Alpha Gamma Rho.

AGR's Foundation is willing and able to tailor fund raising programs to individual alumni corporation needs. Procedures for cooperation have been established and earmarked funds, given to an approved project, can be disbursed with the advice of an alumni corporation.

Major financing of any local AGR housing project should be done with reserves, funds raised and local first mortgage financing. The AGR Chapter House Loan Fund, now called Housing Resources Trust, can provide mortgages or guarantees to those who qualify. It operates as a lender of “last resort” and is not in a position to simply reduce debt pressure on request.

### **Rationale**

Adequate chapter facilities and a higher level of programming generally result from financial stability, which is achieved through long-range planning and a system for accumulating financial reserves. Long-term financing and fund raising are concerns of alumni corporations rather than undergraduates.

## Financial Structure

Chapter houses are normally owned by local alumni corporations, which are typically organized as not-for-profit corporations operating under the laws of the states where located. While not incorporated, they are granted exemption from federal corporation income tax and are typically 501(c)(7) organizations.

Undergraduate chapters are organized as subordinate units of the National Fraternity and operate under the auspices of a charter granted by that organization, which is a 501(c)(7) corporation organized and operating under the laws of the State of Illinois. Chapter houses are normally leased to undergraduate chapters by alumni corporations. Such leases typically designate eight or nine equal payments constituting rent for the facility.

A good lease arrangement provides sufficient operating income to the alumni corporation enabling it to provide an adequate chapter house in the long run. Chapter houses are initially secured through the accumulation of alumni funds, coupled with some long-term debt. This debt is normally secured with a first mortgage through a local financial institution. It may or may not be coupled with a second mortgage secured through AGR's Housing Resources Trust.

The accumulation of funds from local alumni may be through contribution, sale of bonds, loans, etc., and may include friends, parents and others. It is important that alumni have an opportunity to invest funds in the housing project to insure retention of their long-range interest and support.

The retention of alumni interest is essential and many feel that a reasonable debt will assist in that regard. When alumni dollars are invested in a house, a tendency to remain involved in chapter management results.

Chapter rent is initially established at a rate necessary to adequately service debt, insurance, taxes, repairs, maintenance, reinvestment, and other related costs. Generally this rent, when computed on a per man basis, results in house bills for undergraduates which will be competitive to other campus housing.

Good fiscal policy calls for each undergraduate to pay his fair share of the housing cost. Obviously, as costs increase, the amount of that fair share should increase. Frequently, however, alumni corporations fail to increase rent to a sufficient level to provide for added reserves (for major remodeling, replacement and annual maintenance). This keeps house bills low for students, but doesn't adequately provide for the long term. "Cheap house bills normally yield cheap housing."

Alumni corporations are lulled into a fixed rental charge as a result of their major cost being a fixed debt service cost. Rent to the chapter may need to be adjusted upward as alternative housing rates increase – to generate reserves for the alumni corporation.

The establishment of a housing fund by the alumni corporation, into which each undergraduate pays a sum each month, is a good means of accumulating reserves over a period of time to be used for major remodeling or replacement of the house.

Undergraduates living in the house over a period of time with a “flat rent” often do not pay their fair share of major remodeling or addition. When major expenditures do occur, alumni frequently increase rent, resulting in a disproportionate “fair share” cost to undergraduates living in the house at that time.

Obviously, this “peak and valley” rent structure syndrome is less than ideal. Unfortunately, it is very possible that a major fund raising drive designated to pay off a mortgage can contribute to the syndrome. To avoid this, funds raised through a specific “project” and funds accumulated by periodically increasing house bills may better be used for enhancing the educational programs of the undergraduate. This makes the AGR experience more valuable, might well result in increasing the number of undergraduates in rent payments. Increased favorable experiences for undergraduates results in alumni who feel good about their AGR experience and may in the future contribute dollars to the program – preserving the cycle.

Alumni corporations adhering to these fiscal policies should (when the time for remodeling, major repair or replacement comes) have significant reserves to assist in meeting the necessary costs. As an added benefit, major fund raising for additional or improved housing is significantly easier and more successful if a healthy reserve has been built up and is available to “kick off” the drive.

### **Tax Deductible Fund Raising Alternatives**

Major fund raising may need to be considered by an alumni corporation for housing if reserves are not adequate to finance a housing project. Major long-term fund raising may also be utilized to develop reserves for programs like scholarship or library funds, leadership awards, etc.

Alumni corporations should conduct major long-term fund raising activities, not undergraduate chapters. While cooperation between the two groups is essential, the corporation is a much better vehicle because of its stability of leadership and the assurance it provides donors that gifts will be used appropriately .

It has generally been found that tax deductibility is a very important issue in major fund raising. Gifts to undergraduate chapters or local alumni corporations do not meet IRS tests for charitable contribution deductibility. There are, however, certain entities available which do meet those requirements and can provide for the needs of alumni corporations.

Alumni corporations have considered these options: 1) developing a fund raising arrangement with the host university or its foundation, 2) establishing a local 501(c)(3) organization, or 3) utilizing the Educational Foundation of Alpha Gamma Rho.

## 1. University Foundation

Most universities will not cooperate with an alumni corporation in fund raising for the construction of housing. Those that do generally attach conditions making it inadvisable (i.e., if any funds are to be used for chapter housing, the university often wants the land deeded to it so they can lease it back to the fraternity).

## 2. Local Chapter Foundation

Despite a costly application procedure, some district IRS offices continue to approve applications for individual chapter foundations.

Many conditions and regulations are involved in organizing and maintaining such an organization. There are two types of foundations – private and public. The private status is very restrictive. Public foundations are subjected to various conditions and regulations as well. Some are:

- a. Public support test requiring that substantial support comes from a broad base as opposed to a very small number of donors making significant gifts.
- b. Because a public foundation must receive substantial support from the public and a major fund raising effort would generate principal which, in turn, creates significant interest income; major fund raising must be continuous to ensure that the portion of gross receipts made of interest income does not overshadow other gifts to the Foundation.
- c. Prudent investment practices require that no more than one-third of the total assets in the public foundation be invested in a single real estate parcel, making fund raising for the sole purpose of providing a chapter house inadvisable.
- d. Upon examination of the public foundation's operations, the tax treatment of substantial (disqualified) donors can be changed reducing their deduction for income tax purposes and placing the relationship between these donors and the foundation in jeopardy.
- e. All disbursements by a public foundation must be for charitable, religious, scientific and/or educational purposes – meaning scholarships, leadership activities, libraries and/or other educational purposes, but not other fraternity facilities, activities or programs.

Obviously, if a local chapter foundation does not follow the regulations, the IRS may revoke its tax-exempt status, deny continued operations and disburse the assets. This certainly would not be in the best interest of the chapter or its brothers. If one local chapter foundation does not follow regulations, comes under the hand of an IRS agent and is found to be in violation, all foundations

of AGR could come under close scrutiny and be forced to expend unnecessary dollars to defend their programs and operations.

### **3. The Educational Foundation of Alpha Gamma Rho**

The Educational Foundation of Alpha Gamma Rho is a 501(c)(3) public Foundation and has been in existence since 1965. The Foundation is ready to work with alumni corporations in fund raising for educational and leadership programs, using prudent business practices, while observing the legal restrictions under which public foundations must operate.

The Foundation will make advice and counsel available to alumni corporations concerning legal requirements and limitations with respect to how funds generated through a public foundation can be used. It will make professional fund raising techniques, practices and services available to alumni corporations that desire to use those services.

The Foundation, at the request of local alumni corporations, can establish individual chapter funds to which gifts can be credited. The net interest income/or principal will then be used for educational and leadership activities of that chapter, including certain facilities.

#### **Procedures for Cooperative Agreement Between Local Alumni Corporations and the Educational Foundation of Alpha Gamma Rho**

Upon proper application and acceptance, the Foundation can become a depository of earmarked gifts in order to provide for some of the special educational and charitable needs of a chapter and its undergraduates. Such funds are generally intended for educational and leadership training programs, individual scholarships, grants and loans.

The Foundation will allow donors to earmark, to the extent permitted by applicable Federal income rules and regulations, their gifts for credit to an alumni corporation fund to be used for exempt, educational, approved purposes. The Foundation will provide accounting and reporting of the funds. The Foundation may pool all principal for investment purposes and allocate net investment income to the fund after deductions of any appropriate and reasonable administrative expenses associated with the fund; depending on the option selected.

If the alumni corporation chooses to combine its fund raising activities for specific projects with the fund raising activities of the Foundation, the net proceeds of funds raised by the association can be "earmarked" for that specific project.

The Foundation will pay a fund raising fee to alumni corporations (associations) of the Fraternity for services they render, upon submission of proper documentation, not to exceed 20% of the project assets actually received, if the association chooses to combine its fund raising activities for specific projects with the fund raising activities of the Foundation, and, if the Foundation approves the project proposed by the association.

The Foundation will make direct educational grants to local alumni corporations (associations) for that portion of a building or reconstruction project certified to be educational, subject to Foundation approval of the project proposed by that association.

The Foundation will consider making investments in real estate after reviewing proposals presented by alumni corporations of Alpha Gamma Rho.

Loans (with fair interest rates and repayment terms) may be made to alumni corporations for the investment of principal not immediately needed for grants or other projects.

There are two options available. The first option will have investment income credited to the fund and be charged an administrative fee, both on a monthly basis.

The second option is similar, however there is no administrative fee or investment income credited to the fund. In the second option, payment for the educational grant are for the total educational value of the project, limited to the total contributions.

Both options are eligible for a fund raising fee. In the first option, the funds available for an educational grant are limited to the percentage of the total contributions.

### **Endowment**

If an endowment fund is established, designated gifts from alumni are credited to a specific fund. Principal is held intact and net interest income can be regularly disbursed through the local alumni corporation to encourage (at its location) educational pursuits including study, experimentation, research and the advancement of agriculture.

Again, the desire of the Educational Foundation of Alpha Gamma Rho is to encourage and assist chapters and brothers and thereby fulfill its purposes.

### **Financing**

The greatest portion of a financial package for chapter housing should be put together by combining fund raising efforts with locally secured first mortgage financing. Alpha Gamma Rho does have resources available for completing financial packages for those alumni corporations that qualify.

The Alpha Gamma Rho Chapter House Loan Fund, now called the Housing Resources Trust, was established by action of the delegates to the National Convention in 1958. The purpose of the Fund is to assist alumni corporations to provide adequate housing for undergraduate chapters. This assistance may be accomplished in any of the following ways:

- To establish all rules and regulations (policies and procedures) necessary to acquire and loan monies on mortgages.
- To borrow money.

- To pledge assets as security for money borrowed.
- To execute agreements necessary or desirable to effect its purposes.
- To guarantee performance of mortgage (notes).
- To incur and pay such expenses as necessary
- To develop goals and objectives for HRT and the CHLF.
- To communicate the Fund's capabilities and resources.

Additionally, the trustees have frequently been asked to assist and/or undertake initiatives that would foster the improvement of housing quality throughout the Fraternity:

- To foster, encourage and assist in acquiring the highest quality housing that can be offered competitively at each chapter.
- To serve as a repository of the fraternity's housing needs and as a resource for meeting those needs.
- To develop national housing improvement goals, plans and strategies.
- To encourage and promote use of sound fiscal practices in the management of the Fraternity's housing stock and assist in implementation of CHAMP (Chapter House and Alumni Management Plan).

As a lender and potential source of financing, the Trustees are frequently asked to advise chapters and alumni corporations on housing plans and financing strategies. These roles include the following broad areas of counsel:

- Encouraging and providing guidance in sound house management practices, including property, risk and financial management.
- Assisting alumni corporations in the development and implementation of housing plans, financing strategies and in accessing capital.

Loans are secured by notes and mortgages. Where guarantees are made, an unrecorded deed is held as security. These documents are all in the form required by the state in which the property is located. Documentation such as title evidence, insurance coverage and corporate resolutions is required as would be by a conventional lender.

Any alumni corporation may apply for assistance from the Housing Resources Trust. Loans are not made to undergraduate chapters, undergraduate colonies or individuals.

Alumni corporations should keep in mind the original intent of the Housing Resources Trust. It is obviously not in a position to provide full first mortgage financing for all of our chapters and colonies.

The Fund has been, however, designed and directed as a lender of second (or last) resort. It meets the demand of alumni corporations which need to secure a final piece of financing to conclude a “package” – after having secured local first mortgage financing and exhausted other sources.

Specific requests for Housing Resources Trust financing, once submitted to the Secretary, are reviewed by Trustees of the Loan Fund's Board of Directors, who establish loan limits, interest and repayment rates and other guidelines. When general agreement is reached the alumni corporation is informed. Once all proper documents are in order the Funds are disbursed and/or the guarantee made.