



The Sig House

A Newsletter from the Board of Grand Trustees

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House Corporation Essential Q&A

Q Why is a house corporation necessary?

A Sigma Chi chapters need a place to call home. That facility usually needs an entity referred to generically as "house corporation" to represent the chapter as either owner of the property or lessee if the chapter rents from a private party or the university. This house corporation acts independently of Sigma Chi Fraternity which has no control over house corporation operations.

House Corporation As Owner. If the chapter house is owned by the house corporation, the house corporation manages the property like a landlord. Individual tenant brothers sign a Rental Agreement with the house corporation and agree to pay rent, utilities and other charges and to take reasonable care of the property. If a particular tenant fails to comply with conditions of the Rental Agreement, the house corporation has the right and duty to evict that tenant. The house corporation is responsible for regular maintenance and repairs just like any landlord. The house corporation can borrow money or do fund raising to renovate the property and is obligated to repay debts, insurance premiums, property taxes and other related charges.

House Corporation As Lessee. If the chapter wants to rent property from a private individual or the university, a house corporation acts on behalf of the chapter as the lessee to sign a Master Rental Agreement. The house corporation then subleases to individual tenants, collects rent from them and pays the lessor the monthly rent. (If the lessor is a university, the university may collect directly from the tenants.) Having a house corporation be responsible for the Master Rental

Agreement provides a legal entity and the continuity that most landlords require for long term agreements. Undergraduate brothers that come and go simply cannot provide these essentials. If the tenants create disciplinary issues, fail to maintain the property or pay rent, the house corporation is responsible for enforcement, not the property owner.

Q A group of alumni wants to start a house corporation. What are the steps?

A In order to achieve corporate status, your group must first determine its mission (reason for being) and then seek local legal counsel familiar with incorporation procedures which include:

1. File Articles of Incorporation with the state in which the chapter is located. The filing will probably be for a non-stock corporation controlled by a board of directors. The State filing fee is usually minimal. If the Articles are in good order, the State should issue a corporate charter.

2. After receiving the corporate charter, an organizational meeting should be held shortly thereafter to elect a board of directors from fraternity alumni (actives and chapter advisors should not serve on this board for liability reasons). The elected board will then select its officers. Bylaws must be adopted at the organizational meeting. Opening a bank account for the house corporation requires a corporate resolution which can be passed at this meeting as well. A Tax or Employer ID is necessary to open a corporate account and can be obtained from the IRS by mail, phone or online.

3. Minutes should be taken at each board meeting and kept in a Book of Minutes. Minutes are the record of corporate decisions and actions and keeping these records is required by statute. When it comes to taking

minutes remember, minutes are minutes not seconds or hours. It's a Goldilocks thing: not too much and not too little. Minutes are a record of board *actions*, not board discussions. Board actions require a motion from one director and a second from another board member. (If no motion and second are proposed, move on because no business has been accomplished.) Following a motion and second, discussion follows, then a vote is called for. Typically, a majority of the directors present at the meeting, can carry a motion subject to quorum requirements. An example of quorum is, if there are a total of seven directors, usually at least a majority of them (four) must be present at a meeting to transact business. Of that four, at least three would have to vote in favor of a motion to achieve a majority vote.

While house corporation board meetings do usually not require full blown parliamentary procedure like Roberts Rules of Order, a simplified version of Roberts Rules that follows an advance written agenda can speed decision making and shorten meetings. Much has been written on Roberts Rules for small groups which is available on the internet. Do not underestimate the power of short meetings to attract and hold volunteers. Meetings should be few, necessary and to the point. And leave the cocktails, if any, until *after* the meeting.

4. Corporations are required to file annual tax returns so good financial records should be maintained. House corporations are eligible for recognition as not-for-profit organizations under Sections 501(c)(2) or 501(c)(7) of the Internal Revenue Code. This status can be applied for at the time the corporation requests its Tax ID number.

Q Once the corporation has been formed, does it have to have regular meetings?

A Laws vary from state to state. At a minimum, the board should meet annually to hold elections and adopt the coming year's budget. Taking minutes of the meetings is imperative for historical record keeping and compliance with state law. While only annual meetings are required, many house corporation boards meet regularly during the school year to review ongoing operations and or for special meetings if urgent issues arise. Finally, whenever the house corporation wants to borrow money, buy or sell property or appoint

vacancies to the board, a meeting should be held with an appropriate resolution passed and placed in the Book of Minutes.

Q Can undergraduates serve on the house corporation board?

A Undergraduates should not serve on the board since the house corporation should not be advising or mandating the chapter's operations. It's fine to have them attend board meetings, just not serve on the board or vote. This is also true of chapter advisors and other alumni whose roles could be construed as "supervisory." In a lawsuit against the chapter, an advisor serving on the board might provide a legal connection between the chapter and the assets of the house corporation.

Q Can house corporation members be compensated for their time?

A Although it's not illegal, house corporation member typically serve as unpaid volunteers to avoid conflict of interest that inevitably arises when compensation is involved. If a board member wants to serve as a paid property manager and the board agrees that would be a good thing, that board member should resign from the board and serve as a property manager.

Q What should we do about a director who enters into a contract for repair to the chapter house which the board did not authorize?

A If the work was ordered by a board member who had authority to bind the house corporation to a contract (like the president), the corporation may have to pay. But your bylaws should include a provision that requires all contracts to be approved by the board with an additional provision providing for reimbursement to the house corporation by the member should they authorize work without seeking approval first.

Q We have a house corporation president who won't call a meeting or turn over the control of the corporation. What do we do?

A Officers serve at the pleasure of the board so the board majority can remove any officer from his position, although not from the board itself. However, if his term has expired, he is no longer authorized to serve on the board in any capacity. But to formalize this issue, an annual meeting must be held. Your

bylaws should state when the annual meeting is to take place. The remaining board members can follow those guidelines, give notice of the meeting to all members, hold the election and move on.

Q Do we have any individual legal liability as house corporation members?

A If the house corporation is in good standing with the state or province, its records are in good order and the members do not act outside the scope of their authority, the liability risk is minimal. Insurance for house corporation members is the second level of protection. House corporation volunteers at chapters insured by the Risk Management Foundation receive liability insurance coverage. A personal liability umbrella policy is also a good idea and reasonably priced. This kind of policy covers a volunteer for other organization activity as well.

Q What could be done to prevent misuse or embezzlement of house corporation funds?

A While our brothers are believed to be men of honesty and integrity, temptation can be great for some who are in financial straits or who have drinking, drug or gambling addictions, etc. Embezzlement usually takes place when only one person is handling the money. To discourage the possibility, have someone besides the designated person receive and review a copy of the monthly bank statements. It is also not a bad idea to buy fidelity insurance for those that have access to the money. It is not expensive and can save the corporation from a disaster.

By Grand Trustees Harvey Silverman and Rich Thompson. Have other house corporation questions? Email rich@regensis.net

Fire Alarm Grant Program

The Risk Management Foundation is offering a \$3,000 grant toward the installation of a monitored fire alarm system. After the house corporation contributes \$3,000 of its own funds, the RMF will make available up to \$5,000 in loan at no interest over three years. As a further incentive, RMF offers an insurance premium discount of 5% or the cost of the annual monitoring, whichever is greater, to ensure that a house corporation does not face any

additional costs for the monitoring.

To qualify for the grant:

- Obtain a minimum of two estimates for work.
- A hard-wired monitored fire alarm system must be installed prior to your insurance renewal date. ("Monitored" means a third party like the local fire department, Brinks, ADT, etc. must have a phone hookup to the chapter house which transmits the alarm signal.)

Alarm systems must adhere to the following guidelines:

- To enable 24/7 fire protection of the membership and of the property.
- Comply with National Fire Protection Association (NFPA) 101 - Life Safety Code and NFPA 70 - Electrical. NFPA is a minimum national guideline recognized by both the construction and insurance industries.

SPECIAL ALERT: Chapter houses insured by the Risk Management Foundation that do not have a monitored fire alarm system in place will be subject to cancellation on August 1, 2010. To avoid this happening, contact RMF's Executive Director Steve Davidson Steve.Davidson@sigmachi.org *immediately* to make appropriate arrangements.

House Corporation Officers Training Seminar

HCOTS will be held in Chapel Hill NC on July 30-31, 2010 in conjunction with Balfour Leadership Training Workshop. Attendees will receive training in topics like Corporate Governance, Fund Raising, Student Housing Trends, Project Planning and others. Brainstorming sessions produce innovative solutions to vexing problems.

If your house corporation has not yet attended HCOTS, you should apply! Most of the cost is paid for by Sigma Chi and space is limited to 30. Deadline is April 30, 2010. For a registration form, go to www.TheSigHouse.org

2010 House Corporation Annual Report

Each year, the Grand Trustees gather information from Sigma Chi house corporations to better provide essential information and services to the board members. This year, the report has been simplified and takes only 5-10 minutes to complete. An annual report must be submitted to qualify for **2010 House Corporation Officers Training Seminar** and to apply for the **2010 Outstanding House Corporation Award**.

Deadline for reporting is March 31, 2010. If you have not already completed the report, a form is available at www.TheSigHouse.org.

Fire Safe Chapter Houses

Sigma Chi brothers aren't grown on trees. They are grown in chapter houses and both the actives and houses need to be as safe as possible. The house corporation should partner with active chapter to create and maintain safe conditions. Here are some of the areas to monitor carefully:

Housekeeping. When trash accumulates and dirty clothes pile up, there is a higher likelihood that fire will find fuel to burn. Insist on and check for weekly clean up to address these concerns.

Extension Cords. Many older chapter houses lack the electrical systems that modern structures are required to by code. There are fewer circuits and those there are have lower capacity. Electrical outlets may not be grounded and are fewer in number. Ground Fault Interrupter (GFI) outlets in bathrooms and kitchens are often absent. Yet, today's active brothers use numerous kilowatt eating electronic devices: laptops, printers, stereos, hi-def TVs, cell phone and iPod chargers populate multiple extension cords that festoon every available outlet. If your house is like this, an electrical panel upgrade and more circuits are called for.

Space Heaters. Older housing lacks insulation or double pane windows to keep out winter's bite. Forced air space heaters provide heat levels that could ignite piles of clothes and draperies.

Candles. The dangers of candles begin with an exposed and unattended flame. 40% of candle fires start in the bedroom. Members should prohibit the use of candles throughout the facility.

Smoking. Smoking is the leading cause of fire deaths in the United States. Enacting a No Smoking Policy in the chapter house is a common sense solution. Outdoor cigarette receptacles can be purchased at websites like www.barcoproducts.com

Flammable Liquids. Cleaning compounds, gasoline, etc. should be stored in a dry and secured location, away from water heaters, furnaces and boilers.

Laundry Facilities. Dryers should have lint traps and vents exhausted to the outside. Exhaust vents need to be cleaned regularly.

Review your chapter house several times a year to check for unsafe conditions and ask the cooperation from active brothers on those things under their control.

Do the Math

For most people, math is not a strong suit. Many even have trouble making change and balancing a bank account. And when it comes to geometry, algebra and calculus....forget it. But there are two basic math equations that speak volumes to how well or poorly house corporations and active chapters work together: R-R=R and R+R=R.

Translated into plain English, R-R=R means Rules without Relationship equals Rebellion. The house corporation that uses this approach stays distant and aloof from active chapter except for collection and rules enforcement. Since actives are still maturing, they inevitably will make some immature decisions when it comes to financial accountability and care of the chapter house. With a detached house corporation, these bad decisions usually trigger a parental response. Angry phone calls or emails from house corp rain down on the officers or a surprise visit tirade ensues with comments like "This place looks like %* &#!"

With the R-R=R equation, active chapter rebellion is predictable because

young brothers carry a fair amount of pride. The rebellion may manifest itself openly or subversively. Open rebellion is in your face. Subversive rebellion is the smile of compliance followed with a failure to follow through. Whether open or subversive, the effects are the same. Either little changes or matters get worse.

$R+R=R$, on the other hand, translates into Respect plus Relationship equals Responsibility. When a house corporation takes the time to respectfully and regularly interact with active brothers about positive things, the tone of the relationship radically changes. Most young brothers have a desire for approval and a need to be appreciated. Take the time to find ways to compliment and encourage. Gush over rush success and improved grades. Praise the latest house cleaning, charity fund raiser or renovation project.

Take this equation to a personal level. Ask questions like:

- ★ Where did you come from?
- ★ What are you studying?
- ★ How do you spend your time?
- ★ Have you thought about running for office?
- ★ What about Sigma Chi is most important to you?

The answers to these questions are very important to the one being asked. Make those answers important to you as well. A closer relationship can be further developed through Active/Alumni social events, house corp board meetings held at the chapter house, mentoring, attending initiation ceremonies, helping with Initiation Week, athletic event tailgates and other ways. Be creative. These contacts should focus on nurturing the “brother” aspect of the relationship. These brothers already have parents and aren’t looking for more.

Another advantage of $R+R=R$ is you can get a sense of who the potential leaders are. At active chapter, the cream doesn’t always rise to the top. Some obvious leaders still don’t recognize they have the talent. An older brother’s encouragement could make all the difference. Effective active chapter officers always make house corp’s job much easier because they will be more likely to enforce accountability. The better active chapter governs itself, the

easier house corp’s job is.

The beauty of this basic math is it takes much less time than the damage control house corps deal with when things are in crisis. Use the $R+R=R$ formula for success. Not only will you focus on positive outcomes, you’ll nurture lifelong relationships with new Sigma Chi brothers.

Collegiate Housing & Infrastructure Bill

Chapter houses seem to have an insatiable need for renovation. As the houses age and are subjected to “accelerated depreciation” by the residents, house corporations are challenged to keep the housing safe and competitive with other forms of university housing. Universities have long had the advantage of being able to use tax deductible contributions to maintain their property.

The **Collegiate Housing and Infrastructure Act** (House 1547/Senate 781) would level the playing field by allowing non-university owned not-for-profit student housing, like fraternities and sororities, to enjoy the benefit of tax deductible donations. The effects of this bill will improve the housing capacity and life-safety challenges that currently face much of the college student housing market nationally.

This bill would permit house corporations to receive grants of tax-deductible contributions made to recognized foundations to use for fire and life safety renovations, structural and cosmetic reconstruction as well as maintenance and operations without being subject to the “educational purpose test” as required under current law.

Sigma Chi has joined in a cooperative effort to lobby passage of this badly needed legislation. For more on this coalition and the good work it does, see Capital Fraternal Caucus www.fraternalcaucus.org. Please consider registering on the site (Sigma Chi will get recognition for this).

To help promote passage of this bill, the Grand Trustees strongly urge every Sigma Chi house corporation member as well as their family and friends to send messages of support to your elected

federal representatives: The Capital Fraternal Caucus website makes this easy. Sigma Chi will get points for each message sent. Grand Trustee **Bruce Morgan Casner** serves as the Chairman of Sigma Chi’s Governmental Affairs Committee and sits on the Capital Fraternal Caucus Executive Committee as well. He assures us that these kinds of communications do make a difference.

Constantine Capital, Inc.

Sigma Chi offers an funding alternative for chapter house fire/life safety improvements and renovations. Constantine Capital, Inc. (CCI) can lend up to \$250,000 at competitive interest rates with up to a 30 year amortization schedule.

Also, if your house corporation is considering doing a major fund raiser, CCI can provide seed money to get architectural inspections and drawings done by providing short term funds to get the ball rolling.

Go to www.sigmachi.org > Members > Housing > Constantine Capital, Inc. for more information. For assistance in applying for CCI funding, contact your Grand Trustee.

We’re Here to Serve

The Board of Grand Trustees is available to assist house corporations in a myriad of ways. There is over *600 years of combined professional expertise* in such critical areas as real estate development, property management, project administration, politics, maintenance, renovation, insurance, tax planning, accounting, construction, fund raising, legal, education, housing, risk management and more.

While each Grand Trustee is assigned specific provinces to oversee, this combined expertise is available to all house corporations. The key to tapping this gold mine is to contact your province’s Grand Trustee with a specific request for assistance. If your request is outside of your Grand Trustee’s specific area of expertise, other colleagues will assist in providing real solutions. Give us a try. We’re here to serve.