



KNIGHTS OF COLUMBUS
MAKING A DIFFERENCE FOR LIFE

MEMORANDUM

TO: ALL STATE AND LOCAL COUNCILS AND ASSEMBLIES IN THE
UNITED STATES

FROM: JOHN MARRELLA
SUPREME ADVOCATE

DATE : MAY 2010

SUBJECT: 2009 FEDERAL TAX RETURNS

This memorandum is intended to assist United States councils and assemblies to comply with their federal tax reporting requirements for 2009. While this memo provides important basic information relating to the treatment of the Order's councils and assemblies under the tax laws, we recommend that councils and assemblies seek legal and tax advice from their local professional tax advisers. Each council and assembly must fulfill its legal obligation to file its own federal tax information returns. Questions regarding this memo may be directed to the Supreme Advocate's Office.

I. General Information

The Knights of Columbus is a fraternal benefit society, recognized as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code (IRC). All councils¹ and assemblies in the United States are exempt from federal income tax under Section 501(c)(8) as "fraternal lodges," provided their Employer Identification Number (EIN) is reported to the Supreme Advocate, who in turn will report the number to the IRS for inclusion in the group exemption listing.² The enclosed materials include a letter issued by the IRS to the Supreme Council in 1940, recognizing the federal income tax exemption for the Supreme Council and its subordinate units (the "group exemption"). Also included is the most recent IRS letter, dated October 15, 1998, confirming this exemption. (See Attachment 1). Each assembly and council must obtain its own EIN from the IRS and submit its own tax return. (We ask, however, that you do **not** send a copy of your tax return to the Supreme Council). Further, each council and

¹ For the purposes of this document, the term "council" applies to both state and local councils.

² The Order itself is classified under the federal tax code as a "fraternal benefit society."

assembly must also provide its EIN and written authorization to the Office of the Supreme Advocate in order for it to be recognized under the Order's group exemption. Please note that the group exemption does not extend to home corporations or home associations, which are separate legal entities.

The Order's group exemption does not exempt councils or assemblies from state and local taxes. For example, assemblies and councils may be subject to state or local sales taxes or property taxes, unless state or local laws specifically exempt these entities. Typically, states grant sales tax exemptions only to organizations that are recognized as charitable organizations under IRC Section 501(c)(3); as a fraternal benefit society under Section 501(c)(8), the Knights of Columbus is not entitled to this exemption. Each assembly and council should consult its own tax adviser, accountant, or legal counsel to determine whether it is exempt from state and local taxes.

II. Who must file

Every council and assembly must file a return with the IRS.

The type of return that is required to be filed will depend on the amount of gross receipts generated by the council or assembly. Councils and assemblies with annual gross receipts of less than \$25,000 must electronically file a Form 990-N with the IRS.³ (See Attachment 2, page entitled "Annual Electronic Filing Requirement for Knights of Columbus Subordinates").

Under IRC Section 6033, tax exempt organizations with annual gross receipts of more than \$25,000, must file an annual information return with the IRS that reports:

- the organization's income;
- the organization's expenses;
- changes in the organization's fund balances; and
- a balance sheet.

Organizations with annual gross receipts of \$25,001 to \$499,999 should use Form 990-EZ, while organizations with annual gross receipts equal to or greater than \$500,000 should use Form 990. Organizations that earned \$1,000 or more in gross income from an unrelated business must also file Form 990-T (Exempt Organization Business Income) to compute and pay the tax due. Attached to this memorandum are supplemental instructions to assist your council or assembly in filing its Form 990 or Form 990-EZ. (See Attachments 3 and 4).

³ It is suggested that each organization use the "Worksheet for IRS Form 990 and Form 990-EZ Gross Receipts Test" to determine which filing, if any, must be made. (See Attachment 2). Organizations should carefully read the Supplemental Instructions for IRS Form 990-EZ. (see Attachment 3) and Form 990 (see Attachment 4), and should retain copies of their worksheet calculations.

Each assembly and council must file a separate tax return; there is no group or consolidated Form 990 filing. The report must be filed by the 15th day of the fifth month following the end of an organization's annual accounting period.⁴ Please note that federal law imposes a penalty of \$20 per day, up to a maximum of \$10,000, for incomplete or late filing, unless reasonable cause can be shown. Completed Forms 990 and 990-EZ⁵ should be sent to:

**Internal Revenue Service Center
Ogden, UT 84201-0027.**

III. Maintaining Tax Files

Each council and assembly should, at a minimum, maintain a tax file that includes copies of the following:

- the organization's by-laws and all amendments;
- the organization's minutes for the last four years;
- IRS group exemption letters dated October 25, 1940 and October 15, 1998 (See Attachment 1);
- Forms 990, Forms 990-EZ, or Forms 990-N filed for the last 10 years;
- The following forms filed by the organization in the last 10 years: Summary Form 1096 and Information Return for Income Payments (Form 1099), if any; Summary Form W-3 and Income Tax Withheld on Wages (Forms W-2), if any;
- the organization's application (Form SS-4) for its Employer Identification Number;
- tax returns for the last five years filed under the Federal Insurance Contribution Act and the Federal Unemployment Tax Act, if any;
- any prior revenue agent examination reports; and
- Form 990 and Form 990-EZ worksheets for those years, if any, in which gross receipts were less than the \$25,000 threshold amount.

⁴ For example, if a council's accounting period ends on December 31st, it must file by the following May 15th; if its accounting period ends on June 30th, it must file by November 15th.

⁵ If your organization is required to file a report, but did not automatically receive the appropriate tax forms and instructions from the IRS, such forms and instructions may be received from your local IRS office, by calling the IRS forms number (1-800-829-3676), or by downloading forms from the IRS website at www.irs.gov. Requests for an extension to file (Form 8868) should be sent to the same address

Faithful Comptrollers and Financial Secretaries⁶ should maintain, at the organization's principal place of business, a file that includes the above-mentioned group exemption letters, and Forms 990 and/or Forms 990-EZ filed in the previous three years. Under federal law, this file must be open to public inspection during regular business hours, and copies of the filings must be provided to anyone who requests them, at the cost to the requester.⁷

IV. Home Corporations

A. Defined

Councils and assemblies are unincorporated associations that, under state law, may not be incorporated or hold title to real estate. State law, however, allows council members to establish home corporations as non-stock, non-profit corporations⁸ that may qualify as non-profit, tax-exempt organizations, under IRC Section 501(c)(2) (title holding company) or Section 501(c)(7) (social club).⁹ To qualify as a title-holding company under Section 501(c)(2), the home corporation's income must be earned solely from the rental of the real estate, or other passive sources. If a home corporation receives income from business sources, such as from the operation of a bar, or from gaming, then it must operate as a social club under Section 501(c)(7). Liquor licenses, if any, must be held in the name of the home corporation and not by the council. Membership in the home corporation is restricted to those council members in good standing; when a person's membership is terminated, his home corporation membership terminates as well. Home corporations should maintain their own property/casualty liability insurance coverage, as they are not covered by policies paid for by the Knights of Columbus.

B. Home Corporations Subject to Tax

Home corporations **are not** subordinate units of the Knights of Columbus and **are not** tax-exempt under the Order's group exemption. Each home corporation must obtain its own EIN, which is distinct from that of the council whose members formed the home corporation. Each home corporation also must file its own application for tax exempt status on IRS Form 1024. A

⁶ The IRS has determined that for the purposes of the Social Security Act, no relationship of employer-employee exists between the Supreme Council and the Financial Secretary. The annual award from the Supreme Council to the Financial Secretary is properly classified as non-employee compensation, self-employment income.

⁷ Failure to comply with this requirement is punishable under IRC Section 6652, by a fine of \$20 per day of non-compliance, up to a maximum of \$10,000. In addition, a \$5,000 penalty may be assessed against any person who willfully fails to provide access to these returns. See instructions for IRS Form 990, page 61 and Form 990-EZ, page 25 for IRS requirements for inspection and making copies.

⁸ Each council establishing a home corporation should consult with an attorney to ensure compliance with all requirements under state law.

⁹ Funds contributed to a council to acquire, build, or maintain a home corporation building are not recognized by the IRS as charitable contributions and are not deductible by the donor. Further, the raising of such funds by the council is not considered a charitable activity. (See *Revenue Ruling 56-329*.)

home corporation may be required to file its own Form 990-N, Form 990, or Form 990-EZ, depending on its calculation under the Gross Receipts Test. (See Attachment 2). Also, a home corporation should maintain its own records and bank accounts. Donations to a home corporation are not deductible for income tax purposes.⁹

Please note that a Section 501(c)(7) social club may be subject to tax on unrelated business income if profits are generated on receipts from non-members (including investment income); such clubs may be required to file IRS Form 990-T and pay tax on such income, if such gross income exceeds \$1,000. Both Section 501(c)(2) and Section 501(c)(7) organizations are subject to property tax and sales tax, unless deemed exempt under a specific state statute.

V. Pass-Through Charitable Fundraising

Contributions to councils for fraternal or social purposes, such as dues, are not deductible by the donor for federal income tax purposes. As a general rule, all solicitations for fraternal funds must bear the following statement: "Contributions, gifts, etc., paid or given to the [name of receiving council, chapter, assembly, etc.] are not deductible as a charitable contribution for federal income tax purposes."

Under IRC Section 170(c)(4), certain contributions by an individual (as opposed to a business or corporation)¹⁰ may be deductible, provided that the funds are set aside and used exclusively for charitable purposes.¹¹ If those funds are to be used solely for charitable purposes, the solicitation, tickets, or advertising used in the fundraising do not need to be marked with the aforementioned disclaimer. However, if any part of the funds is used for a non-charitable purpose, then the materials must contain the disclaimer.¹² Under IRC Section 2055(a)(3), a bequest to a fraternal benefit society from an individual's estate may be deductible if the will directs its use exclusively for religious, scientific, literary, or educational purposes, and not for fraternal or social purposes.

If any Knights of Columbus council or assembly utilizes the pass-through charitable fundraising mechanism of IRC Section 170(c)(4) or Section 2055(a)(3), and has annual gross receipts of \$25,000 or more, excluding the pass-through receipts, it must report total pass-through contributions to the IRS on Schedule B, which is filed with its return (Forms 990, 990-EZ or 990-PF). Individual contributions totaling \$1,000 or more also must be reported on Schedule B. The council or assembly must provide contributors of \$250 or more with a written acknowledgement of contribution. (See IRS Publication 1771).

¹⁰ Corporate matching donations to a council, or the donation of corporate goods and services, are not deductible.

¹¹ Such funds may not be commingled in any manner and must be segregated from other council funds.

¹² All solicitations for contributions -- including dues statements and all types of advertising -- that will not be used exclusively for charitable purposes, must include the disclaimer of deductibility. Failure to use the disclaimer carries a \$1,000 a day penalty for each failure to disclose up to a maximum of \$10,000. Councils and assemblies should maintain a current file that indicates compliance with this provision of federal law.

If a council or assembly has annual gross receipts of less than \$25,000, excluding pass-through receipts, it is required only to file Form 990-N, as set forth in Section II, above, unless its year-end assets are \$1,250,000 or more. If the council or assembly has year-end assets of \$1,250,000 or more, then it must also file a Form 990 or 990-EZ.

VI. Licensed Gaming

Many states allow non-profit, tax-exempt organizations, including fraternal benefit societies, to engage in charitable gaming in order to raise funds for charitable organizations and activities. Such charitable gaming may include instant tickets, lotteries, pull tabs, raffles and other gaming activities. The exempt organization conducting gaming must include gaming proceeds in its gross receipts on its annual Form 990. Such gaming activities must be conducted in full compliance with all applicable local, state, and federal laws, and the responsibility for such compliance rests with the officers of the relevant council or assembly.¹³

The proceeds from certain bingo games may be exempt from the tax on unrelated business income if the games meet the requirements of IRC Section 513(f) and may be excluded from the wagering tax under IRC Section 4401. Income from the sale of "instant bingo" tickets or "bingo" pull-tabs does not qualify for the bingo exclusion. For further clarification of this issue, you should consult a professional tax adviser.

Councils and assemblies engaged in charitable gaming should review, in consultation with their legal or tax counsel, relevant IRS forms and publications. Such forms and publications may be obtained from the IRS as indicated in footnote 4 above. Please note that gross receipts from such gaming must be included under the EIN of the council or assembly actually conducting the gaming operations.

VII. Conclusion

In sum, although the Knights of Columbus is a tax-exempt organization, all subordinate councils and assemblies have a legal obligation to file annual federal tax returns. In fulfilling this obligation, we strongly suggest that you consult with a local accountant or tax attorney. If you have any questions about this memorandum, you may contact Associate General Counsel Teresa Reichert. You can reach Ms. Reichert at (203) 752-4362.

¹³ IRS Publication 3079 discusses tax exempt organizations and gaming and informs organizations of their potential liability for income, employment, and excise taxes. Depending upon the type of gaming activity, an organization may be required to file a monthly tax return (Form 730) and pay excise tax on its gross receipts. The organization may also have to include the net receipts in filing requirements for Form 990-T and possibly pay tax on unrelated taxable income resulting from the activity. There also may be other filing requirements concerning reporting income and withholding tax on winnings (Form W-2G), employment tax filings for employees, and excise taxes or occupational taxes (Form 11C) concerning the gaming.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:T:1
MJC

OCT 25 1940

Knights of Columbus,
c/o Mr. Luke E. Hart,
Supreme Advocate,
LaSalle Building,
St. Louis, Missouri.

Sirs:

Reference is made to the information submitted by you for use in determining your status and the status of your local subordinate councils for Federal income and employment tax purposes.

It is the opinion of this office, based upon the evidence presented, that you and your subordinate councils listed in the "Directory of Councils and Officers, 1939-40" are exempt from Federal income tax under the provisions of section 101(3) of the Internal Revenue Code and the corresponding provisions of prior revenue acts.

Accordingly, you and your subordinate councils will not be required to file returns of income unless there is a change in the character of your organization, the purposes for which you were organized or your method of operation, or that of your subordinate councils. Any such changes should be immediately reported by you to this Bureau in order that the effect of such changes upon the present exempt status may be determined. You should furnish the Bureau annually, on the calendar year basis, lists in quadruplicate showing the names and addresses of any councils which were chartered during the calendar year and the names and addresses of any councils which for any reason ceased to exist. Such annual lists should be accompanied by a statement, sworn to by one of your principal officers, as to whether or not the information heretofore submitted by you and on which this ruling is based, is applicable in all respects to the new councils appearing on the lists, and should be forwarded so as to reach this office not later than February 15 of the following year.

The exemption evidenced by this letter relates specifically to Federal income tax, but since any organization which is exempt from such tax under the provisions of section 101 of the Internal

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Knights of Columbus,
St. Louis, Missouri.

Revenue Code also is entitled to exemption from the capital stock tax pursuant to the express provisions of section 1201(a)(1) of the Internal Revenue Code, you and your subordinate councils will not be required to file capital stock tax returns for future years so long as the exemption from income tax is effective.

The determination of the status of your organization and subordinate councils for Federal employment tax purposes will be made the subject of a separate communication.

A copy of this ruling is being transmitted to the collectors of internal revenue for the several districts in which you and your subordinate councils are located.

By direction of the Commissioner.

Respectfully,

Printed



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OCT 15 1998

Knights of Columbus Supreme Council
One Columbus Plaza
New Haven, CT 06510-3325

Dear Sir or Madam:

This letter is in response to your request for a letter from the Internal Revenue Service confirming your exempt status and the exempt status of your subordinate units.

Our records indicate your Employee Identification Number is _____ and that a group ruling issued in October 1940, recognized your organization and subordinate councils as being exempt from federal income tax under what is now section 501(c)(8) of the Internal Revenue Code (IRC). Your Group Exemption Number is 0188. The group ruling is still in effect.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harold N. Toppall".

Harold N. Toppall
Chief, Projects Branch 2
Exempt Organizations Division

ANNUAL ELECTRONIC FILING REQUIREMENT FOR KNIGHTS OF COLUMBUS SUBORDINATES

Beginning in 2008, small tax-exempt organizations, including Knights of Columbus councils, assemblies and council home corporations that previously were not required to file tax returns may be required to file an annual electronic notice, Form 990-N Electronic Notice (e-postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ. This filing requirement applies to tax periods beginning after December 31, 2006. This means the first 990-N for a council with a tax year of January 1-December 31, 2007 will be due on May 15, 2008.

Small tax-exempt organizations, whose gross receipts are normally \$25,000 or less, are not required to file Form 990, Return of Organization Exempt from Income Tax or Form 990-EZ, Short Form Return of Organization Exempt from Income Tax. With the enactment of the Pension Protection Act of 2006, these small tax-exempt organizations will now be required to file electronically Form 990-N, also known as the e-Postcard, with the IRS annually.

All Knights of Columbus councils and assemblies must now complete some type of IRS annual filing. If your gross receipts are \$25,000 or less, electronically file Form 990-N. If your gross receipts are more than \$25,000 file Form 990-EZ, unless your gross receipts are over \$500,000, in which case file Form 990.

The IRS mailed educational letters starting in July 2007, which your council or assembly should have received, notifying small tax-exempt organizations that they may be required to file the e-Postcard. The IRS has developed an electronic filing system (there is no paper form) for the e-Postcard and the system is now ready for use. To access the filing system, go to the IRS website www.irs.gov. Click on "Charities & Non-Profits" on the bar across the top of the page and it will take you to a page where you will see a bolded topic for Form 990-N. Once you click on that it will walk you through the on-line e-postcard filing. You will be asked to register and enter the council or assembly's own tax identification number. Each council and assembly must have its own tax identification number – you may not use Supreme's number. There is also a list of Frequently Asked Questions at the bottom of the page.

The form will ask for your tax year. If you have never filed a Form 990 or 990-EZ before and do not have an established tax year, you may choose to use either the calendar year or some other fiscal year, such as the fraternal year which ends on June 30th. The e-Postcard is due every year by the 15th day of the 5th month after the close of your tax year. You cannot file the e-Postcard until after your tax year ends.

The IRS will revoke the tax-exempt status of any organization that fails to meet its annual filing requirement for three consecutive years. Therefore, councils, assemblies and council home corporations that do not file the e-Postcard Form 990-N, or an information return Form 990 or 990-EZ for three consecutive years, will have their tax-exempt status revoked as of the filing due date of the third year.

With specific questions, please click this link http://www.irs.gov/pub/irs-tege/faqs_e-postcard_022908.pdf for a list of Frequently Asked Questions or contact the Supreme Advocate's Office at 203-752-4375.

March 12, 2008
(Revised 4/22/2010)

Worksheet for 2009 IRS Form 990 and Form 990-EZ Gross Receipts Test

A tax exempt organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses. Gross receipts are the sum of: (See Specific Instructions for Form 990-EZ, Page 9 and for Form 990, Page 31)

1. Contributions, gifts, grants and similar amounts received:
(Specific Instructions for 990-EZ, Page 9, for 990, Page 31) _____
 2. Program service revenue:
(Specific Instructions for 990-EZ, Page 10, for 990, Page 32) _____
 3. Membership dues and assessments (Not including Supreme or
or State per capita)
(Specific Instructions for 990-EZ, Page 11, for 990, Page 33) _____
 4. Investment income:
(Specific Instructions for 990-EZ, Page 11, for 990, Page 32) _____
 5. Gains (or Losses) amount from sale of assets other than inventory:
(Specific Instructions for 990-EZ, Page 11, for 990, Page 33) _____
 6. Special events and activities:
(Specific Instructions for 990-EZ, Page 12, for 990, Page 34) _____
 7. Gross sales of inventory:
(Specific Instructions for 990-EZ, Page 13, for 990, Page 34) _____
 8. Other revenue:
(Specific Instructions for 990-EZ, Page 13, for 990, Page 35) _____
- Total Gross Receipts:** _____
(Add lines 1 through 8)

If Total Gross Receipts are equal to or less than \$25,000 excluding pass-through receipts, you do not have to file Form 990 or Form 990-EZ, unless your assets at year-end were \$1,250,000 or more. However, you must file form 990-N.

If Total Gross Receipts are more than \$25,000, you must file either Form 990 or Form 990-EZ and report all pass-through receipts.

If Total Gross Receipts are more than \$25,000 but less than \$500,000 and total assets at year-end were less than \$1,250,000, you may file Form 990-EZ. Read carefully the IRS instructions for Form 990 and Form 990-EZ.

If Total Gross Receipts are equal to or greater than \$500,000 or total assets at year end were equal to or great than \$1,250,000 you must file Form 990. Read carefully the IRS instructions for Form 990 and Form 990-EZ.

Proceed to Form 990-N, Form 990 or Form 990-EZ as determined above.

**RE: KNIGHTS OF COLUMBUS SUPPLEMENTAL INSTRUCTIONS FOR 2009 ANNUAL
FEDERAL INFORMATION RETURN IRS FORM 990-EZ**

Internal Revenue Service (IRS) Form 990-EZ and instructions may be viewed and downloaded from the IRS website www.irs.gov or they can be obtained from IRS local offices or by calling the IRS forms-ordering number 1-800-TAX-FORM (1-800-829-3676).

The IRS may send you a Form 990 or 990-EZ Form and instructions. The set from the IRS will include an address label showing last year's address. That label should be used in filing the form for the current year. If any information on the label is wrong, draw a line through that part and correct it following the Specific Instructions for Form 990-EZ, Item C, Page 8. If you did not file Form 990-EZ for 2008, you may not receive a packet from the IRS.

On Line "A," indicate the beginning and ending dates of your accounting year, if different from the calendar year.

On Line "B," check the box if the Council's mailing address has changed since the filing of the 2008 Form 990-EZ, or if the pre-addressed label you have received from the IRS was incorrect and you are correcting the information.

When completing the Name of Organization and address Box "C," use the pre-addressed mailing label you may have received from the IRS and follow the Specific Instructions for Form 990-EZ, Item C, Page 8 regarding name and address. Be certain to use your council's correct name and council number. Most council names should read, "Knights of Columbus Council No. (insert council number)." The Council or Assembly number may be a one, two, three, four or five digit number. While for computer purposes it may be preceded by a "0," do not do so here. Councils with adopted names should read "Knights of Columbus, (insert the adopted name), Council No. (insert council number)". **Do not** use the title "Supreme Council" anywhere in the name of your organization.

Your council's Employer Identification Number (EIN), a nine digit identification number issued by the IRS, should be inserted in Box "D" of the Form 990-EZ; if your council does not have its own EIN, you must file Form SS-4 with the IRS to request one. This form can be obtained from any local IRS office, downloaded from the IRS website or obtained from the Supreme Advocate's office. Pending receipt of an EIN from the IRS, insert the words "applied for" in Box "D" of Form 990-EZ. Each council must have its own EIN in order to be listed under the Order's Group Exemption Number. **Do not** use the Supreme Council's EIN.

On Line "F," enter the group exemption number (GEN) 0188.

On Line "G," check the box reflecting the method of accounting.

Line "H" must be completed or the return will not be considered complete. If the council did not receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and did not receive any non-charitable contributions of \$5,000.00 or more, then check the box on Line "H" indicating the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF). See Specific Instructions for Form 990-EZ, Page 8. If the council did receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and is otherwise required to file Form 990-EZ because it has gross receipts of more than \$25,000 excluding the pass-through receipts or had year-end assets of \$250,000 or more, then Schedule B (Form 990, 990-EZ, or 990-PF) must be completed, reporting contribution totals including pass-through receipts and individual contributions of \$1,000.00 or more. See Specific Instructions for Form 990-EZ, Page 8 and the instructions for Schedule B. Contributions of \$250.00 or more must be provided a written acknowledgement substantiating the contribution (see IRS Publication 1771).

On Line "J," check the box for 501(c) and insert the figure "8" between the parentheses.

On Line "K," check the box if your gross receipts are normally not more than \$25,000. You need not file a completed Form 990-EZ with the IRS if your receipts are not more than \$25,000, unless your assets at year-end are \$1,250,000 or

more. However you must file a Form 990-N. See Specific Instructions for Form 990-EZ, Page 9, K.

On Line "L," enter your 2009 gross receipts. If they are \$500,000 or more, you must file Form 990 instead of Form 990-EZ. If more than \$25,000 but less than \$500,000, you may file Form 990-EZ. Also, if your assets at year-end are \$1,250,000 or more, you must file Form 990 instead of Form 990-EZ, regardless of the amount of your 2009 gross receipts.

The remainder of the return should be completed as required by the Specific Instructions for Form 990-EZ, Pages 7-22. Remember that "membership dues and assessments" (Part 1, Line 3) includes the total amount of all dues collected, minus the amount paid to the Supreme and State Councils for per-capita tax assessments and Catholic Advertising.

To avoid filing an incomplete return, you should enter "N/A" if an item does not apply or "0" (zero) if an amount is zero.

Part II: Follow Specific Instructions for Form 990-EZ Page 14.

Part III: Primary Exempt Purpose should be described as "Educational, Charitable, Religious and Social Welfare Works".

Lines 28, 29 and 30: Describe your three most successful program activities for the year. Describe the activity and the general benefit. Assistance in describing the benefit may be found in the general program activity booklets. Do not include any dollar amounts either in "Grants" or "Expenses."

Part IV: List your Grand Knight, Financial Secretary and Trustees. Those that are paid no compensation should be indicated by a "0" (zero) in Column C.

Part V:

Question 35 must be answered to show whether your council had gross income in excess of \$1,000 from an unrelated trade or business. You must file a Form 990-T if you have gross income of \$1,000 or more derived from a business that is regularly carried on and is unrelated to your exempt purposes. Organizations with unrelated taxable business income are taxed at the corporate rate and must file the 990-T by the fifteenth day of the fifth month following the close of the taxable year. If the answer to 35a is "yes," then 35b must be answered as to whether a Form 990-T has been filed.

Question 36: Your answer generally will be "No." If your answer to Question 36 is "Yes," your schedule of disposed assets should be given in detail. See the Specific Instructions for Form 990-EZ, Page 18.

Question 37a: The answer should be "0" (zero). **Question 37b:** The answer should be "No." Councils should not make political expenditures as described in Specific Instructions for Form 990-EZ, Line 37, Page 19.

Question 38a: The answer should be "No;" if your answer to Question 38a is "Yes," attach Part II of Schedule L as specified in Specific Instructions for Form 990-EZ, Line 38, Page 19.

The answer to **Questions 39a, 39b, 40a, 40b, 40c and 40d** is not applicable, "N/A". If you file a copy of this return with your state, complete **Question 41**. Complete **Question 42** with the name, address and telephone number of the Financial Secretary. **Do not** check the box on Line 43.

The Grand Knight, Deputy Grand Knight, Treasurer or Financial Secretary or equivalent officer of State Councils and Assemblies, must sign form 990-EZ. The completed form must be filed by mailing to the Internal Revenue Service Center, Ogden, UT 84201-0027 as shown on Page 5 of the General Instructions for Form 990-EZ.

**RE: KNIGHTS OF COLUMBUS SUPPLEMENTAL INSTRUCTIONS FOR 2009 ANNUAL
FEDERAL INFORMATION RETURN IRS FORM 990**

Internal Revenue Service (IRS) Form 990 and instructions may be viewed and downloaded from the IRS website www.irs.gov or they can be obtained from IRS local offices or by calling the IRS forms ordering number 1-800-TAX-FORM (1-800-829-3676). The IRS instructions plus the Knights of Columbus supplemental instructions for the 2009 Form 990 must be used together to complete the Form 990.

The IRS may send you a 990 or 990-EZ Form and instructions. The set from the IRS will include an address label showing last year's address. That label should be used in filing the form for the current year. If any information on the label is wrong, draw a line through that part and correct it following the Specific Instructions for Form 990, Item C, Page 9. If you did not file Form 990 for 2008, you may not receive a packet from the IRS.

On Line "A," indicate the beginning and ending dates of your accounting year, if different from the calendar year.

On Line "B," check the box if the Council's mailing address has changed since the filing of the 2008 Form 990, or if the pre-addressed mailing label you have received from the IRS was incorrect and you are correcting the information.

When completing the Name of Organization and address Box "C", use the pre-addressed mailing label you may have received from the IRS and follow the Specific Instructions for Form 990, Item C, Page 9 regarding name and address. Be certain to use your council's correct name and council number. Most council names should read, "Knights of Columbus Council No. (insert council number)." The Council or Assembly number may be a one, two, three, four or five digit number. While for computer purposes it may be preceded by a "0," do not do so here. Councils with adopted names should read, "Knights of Columbus, (insert the adopted name), Council No., (insert council number)." Do not use the title "Supreme Council" anywhere in the name of your organization.

Your council's Employer Identification Number (EIN), a nine digit identification number issued by the IRS, should be inserted in Box "D" of the Form 990; if your council does not have its own EIN, you must file Form SS-4 with the IRS to request one. This form can be obtained from any local IRS office, or from the Supreme Advocate's office. Pending receipt of an EIN from the IRS, insert the words "applied for" in Box "D" of Form 990. Each council must have its own EIN in order to be listed under the Order's Group Exemption Number. Do not use the Supreme Council's EIN.

On Line "G," enter the amount of your gross receipts – use the Worksheet provided as Attachment 2 to figure your gross receipts.

On Line "H," the answer to (a) is "No"; the answer to (c) is 0188. Do not answer (b).

On Line "I," check the box for 501(c) and insert the figure "8" between the parentheses.

On Line "J," enter "N/A"

On Line "K," check the box for "Association".

NOTE: You do not have to file a Form 990 with the IRS if your receipts are less than \$25,000, unless your assets at year-end are \$1,250,000 or more. However, you must file Form 990-N.

The remainder of the return should be completed as required by the IRS instructions for Form 990. Again, if your gross receipts are normally not more than \$25,000, excluding pass-through receipts, you are not required to complete and file Form 990 with the IRS unless your gross assets at year-end are more than \$1,250,000. However, you should file Form 990-N. If line 12 is more than \$25,000, you must file Form 990 or Form 990-EZ. Remember that membership dues and assessments (Part VIII, Line 1b) include the total amount of all dues collected, minus the amount paid to the Supreme and State Councils for per-capita tax assessments and Catholic Advertising.

To avoid filing an incomplete return, you should enter "N/A" if an item does not apply or "0" (zero) if an amount is zero.

Part I, Question 1 and Part III, Question 1: The KofC mission can be described as – *Knights of Columbus is a Catholic fraternal organization dedicated to promoting and conducting educational, charitable, religious and social welfare works, rendering mutual aid and assistance to sick and needy members and their families, and providing insurance products and annuities to benefit members, wives and children.*

(Over→)

Part I, Question 5 should normally be "0" – please contact the home office if the council is reporting employees.

Part III, Question 3: The answer is normally "No".

Questions 4a, b, c: Leave the "code" slot blank. Describe up to three of your largest program activities for the year, as measured by total expenses incurred. DO NOT include any dollar amounts in "Grants", "Expenses" or "Revenue".

Part IV Questions 1, 7, 8, 12a, 13, 14a, 20, 21, 24 and 33 will normally be answered "No". You are NOT required to complete Schedule A.

Questions 4, 5, 25 and 36 should be answered "N/A". **Question 31:** Your answer generally will be "No". If your answer is yes, your schedule of disposed assets must be completed on Schedule N. See the IRS instructions for Form 990, page 13.

Part V, Question 3a: Must be answered to show whether your council had gross income in excess of \$1,000 from an unrelated trade or business. You must file a Form 990-T if you have gross income of \$1,000 or more derived from a business that is regularly carried on and is unrelated to your exempt purpose. Organizations with unrelated taxable business income are taxed at the corporate rate and must file the 990-T by the fifteenth day of the fifth month following the close of the taxable year. If 3a is "yes", then 3b must be answered as to whether Form 990-T has been filed.

Question 4a: Should be answered "No" unless you had a foreign bank account.

Questions 7e and 7f: Should be answered "No". Councils should not have such transfers. **Question 7h:** should be "N/A" unless the council received a donation of a car, boat, airplane or other vehicle.

Questions 8 through 12 should be answered "N/A".

Part VI, Section B: Question 10a should be answered "no" and question 10b should be answered "N/A".

Section B: Questions 12, 13 and 14 should be answered "yes" – the appropriate policies can be found on the KofC website when you sign in under "Officers" under "support materials" in the box at the bottom right of the page.

Section C: Question 17 – The answer is "None".

Question 18 – check "Upon Request"

Question 19 – can be answered: "The organization's governing documents, conflict of interest policy and financial statements are photocopied and mailed to individuals or organization s upon request."

Question 20 – List the name, address and telephone number of the Financial Secretary or the equivalent officer.

Part VII: List your current Grand Knight, Financial Secretary and Trustees.

Part VIII: Follow the IRS instructions for Form 990, pages 31-35.

Part IX: Do not complete columns (B), (C) and (D). Complete column (A) if applicable, or enter "N/A" or "zero" if the amount is zero.

Part X: Follow the IRS instructions for Form 990, pages 39-41.

The Grand Knight, Deputy Grand Knight, Treasurer or Financial Secretary or equivalent officer of the State Councils and Assemblies, must sign Form 990. The completed form must be filed by mailing it to the Internal Revenue Service Center, Ogden, UT 84201-0027 as shown on Page 7 of the Instructions for Form 990.

BACKGROUND INFORMATION
RE: SUBORDINATE COUNCILS, STATE COUNCILS,
ASSEMBLIES AND RELATED HOME CORPORATIONS

TAX STATUS OF THE KNIGHTS OF COLUMBUS

The Knights of Columbus is a fraternal benefit society under Internal Revenue Code Section 501(c)(8). The group exemption of the Knights of Columbus, dating from 1940, extends to subordinate councils of the Knights of Columbus, state councils and assemblies provided the Employer Identification Number (EIN) of such subordinate council is properly listed with the Supreme Advocate and thereafter, through the Supreme Advocate, listed with the IRS for inclusion in the group exemption listing.

GROUP EXEMPTION

The group exemption of the Knights of Columbus as a 501(c)(8) Fraternal Benefit Society is an exemption from most forms of federal income tax but not necessarily all. The group exemption does not extend to state or local sales taxes or property taxes unless specific state-granted statutory exemptions exist. The group exemption extends only to subordinate units of the Knights of Columbus: state councils, local councils and assemblies. It does not extend to related entities such as home corporations or home associations. Home corporations must qualify for federal tax exempt status on their own merits, as either 501(c)(2) title holding organizations or 501(c)(7) social clubs, depending on the manner in which they operate and their sources of income. Local tax advisors, accountants or attorneys can assist with this matter. Councils and assemblies should have property casualty liability insurance coverage. No such coverage exists or extends from the Supreme Council to councils and assemblies.

SALES TAXES

The federal income tax exempt status of the Knights of Columbus is not an exemption from state or local sales tax. For example, The Supreme Council, located in Connecticut, pays sales tax to the State of Connecticut on purchases. States generally grant sales tax exemptions only to IRS recognized 501(c)(3) charitable tax exempt organizations. Therefore your council or assembly is subject to sales tax on purchases, unless a specific state granted statutory exemption from sales taxes for Fraternal Benefit Societies exists in your state. A local tax advisor, accountant or attorney, or state revenue department can advise you.

HOME CORPORATION STATUS

Subordinate Councils of the Knights of Columbus are unincorporated associations which exist under charters issued by the Supreme Council. Under state law, they lack independent continuity of existence and are not eligible to be incorporated or to hold title to real estate. It is for that reason that home corporations are created as non-stock, non-profit corporations under state statutes. These corporations may qualify as either 501(c)(2) title holding organizations or 501(c)(7) social clubs, depending on how they operate and their sources of income. 501(c)(2) title holding organizations are created as non-stock, non-profit corporations under state law solely to hold title to real estate for another category of non-stock, non-profit, tax exempt organization, which is itself not eligible to hold title. Such organizations may have income only from the rental of the real estate in question such as rental earned from the council for its use or rental to other groups in the community. If other sources of income exist such as a bar, restaurant, or licensed gaming, then the home corporation must operate as a 501(c)(7) social club, the same category as a golf club or country club. If a liquor license is required it must be in the name of the home corporation, not in the name of the council. Home corporations should have property casualty liability coverage.

501(c)(7) social clubs may be subject to income tax on unrelated business taxable income if their receipts include more than 15% from non-members and may be required to file IRS Form 990T and pay tax on the unrelated business taxable income from non-members. Both 501(c)(2) and 501(c)(7) organizations would not be exempt from property tax or sales tax unless specific state granted statutory exemptions were to exist and they usually do not.

The membership in the home corporation may include only members in good standing of the council for whose benefit the corporation is formed. When a person's council membership is terminated, his membership in the corporation must automatically terminate. Model Articles of Incorporation and by-laws for home corporations are available from the Supreme Advocate's Office. They should be reviewed by an attorney licensed in your state to ensure that your by-laws meet all specific state statutory requirements.

It is important that councils with home corporations operate the two as entirely separate legal entities, each with its own EIN, its own records and bank accounts, and each filing its own Form 990 or Form 990-N with the IRS. The officers of each organization are responsible for compliance with applicable federal state and local laws and for making the required filings, if any.

Raising funds to build a home corporation building related to a Knights of Columbus Council is not recognized as a charitable activity by the IRS. Contributions for the purpose of acquiring, erecting, and/or maintaining a building used by a fraternal organization in its fraternal and other activities do not constitute charitable contributions and are not deductible. Revenue Ruling 56-329

PASS THROUGH CHARITABLE FUNDRAISING

The status of the Knights of Columbus as a 501(c)(8) Fraternal Benefit Society also means that contributions to the council for fraternal purposes are not deductible by the donor. It is for this reason that dues notices include disclaimers regarding deductibility. There is an exception, however, to this rule. Contributions to a council by an individual might be deductible as a charitable contribution if Internal Revenue Code Section 170(c)(4) is complied with and those funds are used exclusively for charitable purposes.

The law allows deductibility by an individual of a contribution made to a fraternal benefit society if that contribution is to be used *exclusively* for charitable purposes. If this occurs, funds so solicited and collected may not be commingled in any manner and must be totally segregated from other council funds. Those funds cannot be used for social or fraternal purposes but may only be used exclusively for charitable purposes. This provision is the only provision under which any funds transferred to a Knights of Columbus subordinate council or assembly could be treated as deductible by the donor. Donations under IRC Sec.170(c)(4) must be reported by filing Form 990 Schedule B. Such donations of \$250.00 or more must be acknowledged as required by IRS publication 1771.

Also, this limited exception is only allowed to individual taxpayers; it can not be utilized by businesses or corporations. Therefore, it would not be applicable in any instance concerning corporate matching funds or discounts on corporate donation of goods or services. Bequests to a fraternal benefit society from an individual's estate might be eligible to be treated as charitable bequests if the will directs they are to be used exclusively for religious, charitable, scientific, literary or educational purposes, not fraternal or social, under IRC Sec.2055 (a)(3).

LICENSED GAMING – IMPORTANT IRS INFORMATION

Many states allow non-profit tax-exempt organizations such as fraternal benefit societies like the Knights of Columbus to engage in charitable gaming to raise funds for charitable organizations and activities. Activity of this nature must be conducted in full compliance with all applicable local, state, and federal laws. The responsibility for complying with these laws rests with the officers of the subordinate council or assembly engaged in the activity.

The Internal Revenue Service has published a gaming publication for tax exempt organizations, IRS Publication 3079, to inform organizations of their compliance requirements concerning charitable gaming activity for income taxes, employment taxes and excise taxes. This activity may include instant tickets, lotteries, pull tabs, raffles and other gaming activities. The exempt organizations conducting gaming would have to include gaming gross receipts in their 990 filing requirement calculations.

Depending upon the type of gaming activity, the organization may be required to file Form 730, a monthly tax return and pay an excise tax on the gross receipts. The organization may also have to include the net receipts in filing requirements for Form 990T and possibly pay tax on unrelated taxable income resulting from the activity. There may also be other filing requirements concerning reporting income and withholding tax on winnings Form W-2G, employment tax filings for employees, and excise taxes or occupational taxes Form 11C concerning the gaming.

Certain bingo games may be exempt from the tax on unrelated business taxable income if they meet the requirements of IRC Sec. 513(f) and might be excluded from the wagering tax under IRC Sec. 4401. Income from the sale of "instant bingo" tickets or "bingo" pull-tabs do not qualify for the bingo exclusion.

It is recommended that subordinate councils or assemblies engaged in any form of charitable gaming carefully review these requirements by obtaining from the IRS: IRS Publication 3079, IRS Forms 730, 990, 990EZ, 990T, W-2G and 11C and instructions. These should be reviewed with an experienced accountant or attorney advising the council regarding tax compliance. The publications and forms and instructions may be obtained from the IRS by calling 1-800-829-3676, or the IRS website (www.irs.gov).

If the charitable gaming license is in the name of the council and under the EIN of the council, the gross receipts of the gaming must be included in the council's receipts for purposes of the Form 990 filing threshold. If the charitable gaming license is in the name of the home corporation and under the EIN of the home corporation, then the gross receipts of the gaming must be included in the home corporation's receipts for purposes of the Form 990 filing threshold.

IRS ANNUAL INFORMATION RETURN FORM 990 OR 990-EZ

Each state and subordinate council and assembly must file its own Form 990 or Form 990-EZ if it reached the \$25,001 gross receipts threshold. Councils and assemblies with annual gross receipts equal to or less than \$25,000 must file Form 990-N and should see the sheet entitled "Annual Electronic Filing Requirement for Knights of Columbus Subordinates". There is no group or consolidated filing. Council related home corporations make their own Form 990 or Form 990-EZ filings if the home corporation's gross receipts reach the \$25,001 threshold, or otherwise their own Form 990-N filing. The officers of each organization are responsible for compliance with applicable federal, state, and local laws and for making the required filings, if any.

IRS FAQs:

Annual Electronic Notice - Form 990-N (e-Postcard) e-Postcard: Frequently Asked Questions and Answers

1. Who must file Form 990-N (e-Postcard)?

Under the Pension Protection Act of 2006, most small tax-exempt organizations whose gross receipts are less than \$25,000 must file Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ. Before this law was enacted, these small organizations were not required to file annually with the IRS. The first filings are due in 2008 for tax years ending on or after December 31, 2007.

2. What organizations are ineligible to file the e-Postcard?

The following organizations are not eligible to file the e-Postcard but must file different forms instead;

- Private foundations must file Form 990-PF;
- Tax-exempt organizations with annual gross receipts that are equal to or greater than \$25,000 must file Form 990 or Form 990-EZ.

3. How do I file the e-Postcard?

The e-Postcard is filed electronically by answering fewer than ten questions in an online form that can be found at <http://epostcard.form990.org/> When you link to the system, you leave the IRS site and file the e-Postcard with the IRS through our trusted partner Urban Institute. The form must be completed and filed electronically. There is no paper form.

4. How much does it cost to file the e-Postcard?

Filing the e-Postcard is free.

5. Do I need to purchase a computer and software to file the e-Postcard?

No, the IRS has created a simple Internet based process for filing the e-Postcard, so organizations do not need to purchase software to file. Organizations that do not have access to a computer can go to places that provide Internet access to the public, such as their local library, to file the e-Postcard.

6. When is the e-Postcard due? How often do I need to file?

The e-Postcard is due every year by the 15 day of the fifth month after the close of your

tax year. For example, if your tax year ended on December 31st, the e-Postcard is due May 15th.

A tax year is usually 12 consecutive months. There are two kinds of tax years;

- **Calendar Tax Year**

This is a period of 12 consecutive months beginning January 1 and ending December 31;

or

- **Fiscal Tax Year**

This is a period of 12 consecutive months ending on the last day of any month except December.

See questions 15 and 16 for what happens if you file late or fail to file.

7. Can I file the e-Postcard before the close of my tax year?

No, you cannot file the e-Postcard until after the end of your tax year.

8. What information do I need to provide on the e-Postcard?

The e-Postcard is easy to complete. All you need is the following information:

- Organization's legal name- An organization's legal name is the organization's name as it appears in the certificate of incorporation or other document that was created when your organization formed or its name was officially changed.
- Any other names your organization uses- If the organization is known by or uses other names to refer to the organization as a whole (and not to its programs and activities); commonly referred to as Doing-Business-As (DBA) names, they should be listed.
- Organization's mailing address- The mailing address is the current mailing address used by the organization.
- Organization's website address (if you have one).
- Organization's employer identification number (EIN) - Every organization must have an EIN, even if it does not have employees. The EIN is a unique number that identifies the organization to the Internal Revenue Service. Most organizations would have acquired an EIN by filing a Form SS-4 prior to requesting tax-exemption. If you do not know your EIN, you may be able to find it on the organization's bank statement.
- Name and address of a principal officer of your organization-usually president, vice president, secretary, or treasurer- often specified in the organization's by-laws.
- Organization's annual tax year- Like any taxpayer, exempt organizations must keep books and reports and file returns based on an annual accounting period called a tax year. A tax year is usually 12 consecutive months that can be either calendar year or fiscal year and is often specified in the organizations by-laws.
- Confirmation that your organization's annual gross receipts are still less than \$25,000
- If applicable, a statement that your organization has terminated or is terminating (going out of business)

9. Why do I need to provide this information?

The Pension Protection Act of 2006 added this filing requirement to ensure that the IRS and potential donors to your organization have current information about it.

10. Will I get a confirmation that I filed the e-Postcard?

Yes, you will receive an email from the filing system indicating whether your e-Postcard was accepted or rejected by the IRS. If rejected, the email will tell you who to contact to help resolve the problem. In addition, once you submit the e-Postcard to the IRS you can view the "Check Filing Status" page where you can view and print an image of the e-Postcard for your records.

11. If my information changes or I make a mistake, can I amend the e-Postcard after submitting it to the IRS?

No, you cannot file an amended e-Postcard. You can make corrections or update your information when you file your next e-Postcard.

12. How will the public get access to the e-Postcards that have been filed?

The public can view an individual organization's e-Postcard or download the entire data base of electronically filed e-Postcards at a disclosure site on the Charities and Non-Profits page of the IRS Web site.

13. I received a letter from the IRS about the e-Postcard, but I am no longer with the organization and I am unable to forward the letter; what should I do?

Call Customer Account Services toll-free at 877-829-5500 and explain the situation.

14. Can I file Form 990 or Form 990-EZ instead of the e-Postcard?

Yes, but please note that if you choose to file an annual information return (Form 990 or Form 990-EZ) instead of the e-Postcard, you must file a complete return. An incomplete or partially completed Form 990 or Form 990-EZ will not satisfy the annual filing requirement.

15. What happens if I file the e-Postcard late?

The IRS will send you a reminder notice if you do not file your e-Postcard on time, but you will not be assessed a penalty for late filing an e-Postcard. However, it is critical that you file within the 3-year period described in questions 16 and 17.

16. What happens if I fail to file the e-Postcard or Form 990 or Form 990-EZ?

An organization that fails to file the required e-Postcard (or information return) for three consecutive tax years will automatically lose its tax-exempt status. The revocation of an organization's tax-exempt status will not take place until the filing due date of the third year. For example, if your first e-Postcard is due on May 15, 2008 (for tax year 2007) and you do not file in 2008, 2009, or by May 15, 2010, you will lose your tax-exempt status on May 15, 2010. The IRS will not send additional notices once your tax-exempt status is automatically revoked.

17. Can an organization have its tax-exempt status reinstated if it was revoked for failing to file for three consecutive years?

Yes, but you must apply (or reapply) and pay the appropriate user fee to have your tax-exempt status reinstated if it was revoked because you failed to file for three consecutive years. Reinstatement of tax-exempt status may be retroactive if you can show that you had reasonable cause for not filing. To apply for tax-exempt status, use Form 1023, Application for Recognition of Exemption, (if you are a section 501(c)(3) public charity) or Form 1024, Application for Exemption under Section 501(a) (for other types of tax-exempt organizations).

18. How can I get the latest information about filing the e-Postcard (Form 990-N)?

For the latest information about electronically filing the e-Postcard, you can:

- Sign up for Exempt Organization's EO Update, a regular email newsletter that highlights new information posted on the charities pages of irs.gov. To subscribe go to www.irs.gov/eo and click on EO Newsletter
- Check our website at www.irs.gov/eo
- Call our customer service function toll-free at 1-877-829-5500

Conflict of Interest Policy

Article I **Purpose**

The purpose of the conflict of interest policy is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

Article II **Definitions**

1. Interested Person

Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

2. Financial Interest

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest in any entity with which the Organization has a transaction or arrangement,
- b. A compensation arrangement with the Organization or with any entity or individual with which the Organization has a transaction or arrangement, or
- c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Organization is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

Article III **Procedures**

1. Duty to Disclose

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

2. Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

3. Procedures for Addressing the Conflict of Interest

- a. An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
- b. The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

c. After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

d. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

4. Violations of the Conflicts of Interest Policy

a. If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

b. If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Article IV

Records of Proceedings

The minutes of the governing board and all committees with board delegated powers shall contain:

a. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

Article V

Compensation

a. A voting member of the governing board who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

b. A voting member of any committee whose jurisdiction included compensation matters and who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

c. No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

Article VI

Annual Statements

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

a. Has received a copy of the conflicts of interest policy,

b. Has read and understands the policy,

c. Has agreed to comply with the policy, and

d. Understands the Organization is nonprofit and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

Article VII
Periodic Reviews

To ensure the Organization operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- b. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Organization's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

Article VIII
Use of Outside Experts

When conducting the periodic reviews as provided for in Article VII, the Organization may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

Council Name: _____

Council Number: _____

Name (Print): _____

Title: _____

Signature: _____

Date: _____



Record Retention Policy

State and local councils should have a system of maintaining records that complies with all relevant laws and regulations. To this end, the Supreme Advocate's Office recommends the following general standards for maintaining a complete set of council records:

1. Corporate Records (Charters, by-laws, minutes, etc.): permanently
2. Financial and Business Records: 10 years
3. Tax Records: 7 to 10 years

If a local council or assembly is dissolved or suspended, the State Council should take custody of all records and maintain them according to the guidelines set forth above or until the council or assembly is reinstated.

Rev Jan 2010*