



## Trustee Training Manual

This training manual covers in detail how to perform the duties listed in the Charter Constitution Laws, Section 145, for the Board of Trustees, which consists of the Grand Knight as chairman and three Trustees.

Being elected as Trustee is one of the most honored positions in a Knights of Columbus council. Trustees are usually men who have a proven track record of quality work and loyalty to their council and to the Order. They are often Past Grand Knights. As the title indicates, when you are elected, your members put their *trust* in you.

At each annual election of officers, the one-year Trustee will be leaving office and the council will be voting for a new 3-year Trustee. The current 3-year Trustee becomes the 2-year Trustee, and the 2-year Trustee becomes the 1-year Trustee. There are exceptions to this, of course.

1. When a new council is chartered, it will elect 3 new Trustees; however, one will serve a 3-year term, one a 2-year term, and one will be elected to a 1-year term. This keeps continuity on the Board of Trustees. Thus, it will always have experienced members.
2. Another exception is in cases of resignation or death of a Trustee. In those cases, a special election is held by the council or the District Deputy would appoint a Trustee to complete the term, whichever is sooner.

The importance of your function cannot be overestimated. As Guardians of your council's funds, you must ensure that your council's financial status remains in a sound and healthy condition, that the vitally important semiannual audits of the council's financials are made promptly after each January 1 and June 30. There is no greater safeguard of the financial security of the council than the trustees' careful preparation of these audits....

The two primary charges – ensure that (1) your council's financial status remains in a healthy condition and (2) the vitally important semiannual audits of the council's financials are made – can be divided as follows:

### **1. Supervise all financial business of the council and approve the payment of all bills**

This is a rather broad statement, and it is meant to be. Even in the realm of finances there's such a thing as protocol or good business practices.

The Trustees recommend approval of all moneys except Benefit Fund moneys and demands of the Supreme Councilor Board of

Directors or State Council, and the regular and usual stated payments of the council, and payments authorized by the council after notice and vote.

Trustees should constantly be aware that all money obtained from any source is considered council funds that should be delivered as soon as possible to the Financial Secretary, who gives a receipt and at the next meeting reports the receipt, the amount, and the source of the funds.

The Trustees should receive copies of monthly Financial Secretary and Treasurer reports to the council and watch the cash flow to assure there is enough money to honor council obligations.

*No money in excess of \$500.00 shall be paid or transferred from the treasury, of any council (except such moneys as the council is called upon to regularly pay for its current expenses and as provided by the laws of the Order, or for purposes approved by the Supreme Council, or Board of Directors) unless by a two thirds vote of the members present and voting at a regular business meeting held subsequent to a regular business meeting at which notice in writing of a resolution of intention to pay or transfer such money and the purposes and amount to be paid or transferred shall have been given and regularly read. Charter Constitution Laws Section 122(b).*



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Council by-laws can provide for mutual aid amounts that do not require further Trustee approval.

### 2. **Scrupulously audit “the books” (council financial records)** [Semiannual Council Audit \(kofc.org\)](http://kofc.org)

Refer to the document [Financial Officer - How to Conduct a Council Audit \(Word\) 20.11 \(mikofc.org\)](http://mikofc.org) for detailed instructions on how to conduct a council audit.

### 3. **Verify that the council sticks to a budget (if created)**

It is strongly recommended that an annual budget be prepared in November or December of each year following guidelines established by the council. After adoption of the budget, it is good practice to transfer funds from the council’s general account to a savings account.

Keep a copy of the council budget in front of you during meetings. As you receive vouchers for budgeted items, subtract the amount from the total allocated. This will prove valuable if your council’s budget is tight and funds are limited.

Here is a template councils can use to create a budget. [FS - Council Budget Template \(mikofc.org\)](http://mikofc.org)

### 4. **Approve banking institutions used by the council**

At each council meeting the Treasurer receives all moneys from the Financial Secretary which were received between meetings. The Treasurer then forthwith deposits those receipts to the credit of the council in a bank or other secure institution of deposit, subject to approval of the Board of Trustees or majority vote of the council.

### 5. **Set additional bonding amounts for the Financial Secretary and Treasurer**

The trustees shall be charged only with fixing the amount of such bonds in excess of the amount provided for by the Board of Directors of the Knights of Columbus, and in such case they shall have evidence that said officers shall have been bonded in such excess amount.

The Financial Secretary, upon appointment by the Supreme Knight, is automatically bonded in the amount of \$5,000. Additional bonding may be provided at a cost of \$7 per thousand. The same will apply to the council Treasurer when the report of elections is received. This is in accord with Section 130 of the Laws and Rules of the Order.

### 6. **Be involved in the selection of the Chaplain**

The Grand Knight, Deputy Grand Knight and Board of Trustees may annually select a priest to act as Chaplain, but such selection must be made in accordance with any rules established by the bishop of the diocese in which the council is located.

### 7. **Guide your council in matter of tax returns, home corporations, charitable fund raising, and licensed gaming**

#### **FEDERAL TAX RETURNS**

This section is intended to help Trustees guide their councils on their federal tax reporting requirements. Since tax laws change and since the information here applies to 2010, we recommend that councils seek legal and tax advice from their local professional tax advisers. Each council must fulfill its legal obligation to file its own federal tax information returns. Questions may be directed to the Supreme Advocate's Office.

#### **GENERAL INFORMATION**



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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 councils' 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. Each assembly and council must obtain its own EIN from the IRS and submit its own tax return. **Do not** send a copy of your tax return to the Supreme Council.

Note: 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 from state and local taxes. 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 council should consult its own tax adviser, accountant, or legal counsel to determine whether it is exempt from state and local taxes.

### WHO MUST FILE – **Every council must file a return with the IRS.**

The type of return that is required to be filed will normally depend on the amount of gross receipts generated by the council.

- Councils with annual gross receipts of \$50,000 or less must electronically file a Form 990-N with the IRS.
- Under IRC Section 6033, tax exempt organizations with annual gross receipts of more than \$50,000, 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
  - A balance sheet
- Organizations with annual gross receipts of \$50,001 to \$199,999 should use Form 990- EZ
- Organizations with annual gross receipts equal to or greater than \$200,000 (or total assets of \$500,000 or more) 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.

Each 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. 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.

### MAINTAINING TAX FILES

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

- The organization's by-laws and all amendments



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- The organization's minutes for the last four years
- IRS group exemption letters dated October 25, 1940 and October 15, 1998 (See Officers On Line, Support Materials, for Form 990 Information posted on the officers pages of the Supreme website, or contact the Supreme Advocate)
- 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
- Form 990 and Form 990-EZ worksheets for those years, if any, in which gross receipts were less than the \$50,000 threshold amount.

Financial Secretaries 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.

### **ANNUAL ELECTRONIC FILING REQUIREMENT FOR KNIGHTS OF COLUMBUS SUBORDINATE COUNCILS**

All Knights of Columbus subordinate councils must now complete some type of annual filing with the Internal Revenue Service (IRS). The type of return depends on the amount of the council's gross receipts. For tax year 2010, if a council's gross receipts are \$50,000 or less, it must file IRS Form 990-N (commonly referred to as the e-Postcard). If a council's gross receipts are between \$50,000 and \$200,000, it must file IRS Form 990EZ. If a council's gross receipts exceed \$200,000, it must file IRS Form 990. These rules apply to all state councils, local councils, chapters, and assemblies.

In 2008, the IRS began requiring small tax-exempt organizations, including Knights of Columbus councils and assemblies, to file an annual tax form, IRS Form 990-N/ePostcard or IRS Form 990-EZ. Most of the smaller councils will qualify for filing IRS Form 990-N/e-Postcard. The IRS Form 990-N/e-Postcard is an informational return and is not used to report taxable income or tax liability. It is relatively brief and must be filed electronically; there is no paper form for the e-Postcard.

To access the IRS electronic filing system, go to the IRS website ([www.irs.gov](http://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 may scroll down until you see the topic for the IRS Form 990-N/e-Postcard. Once you click on that topic, you will be able to access the on-line e-Postcard filing. You will be asked to register and enter the council or assembly's tax identification number (EIN). Each council and assembly must have its own EIN; you may not use the Supreme Council's EIN.

When filing the e-Postcard, you must designate the 12-month period that you have selected as the tax year for your council or assembly (e.g., January 1 to December 31; July 1 to June 30). This is the tax year you established when you originally filled out Form SS-4 to apply for your EIN. If you do not know the tax year you originally selected, try using the 12month period ending December 31. If the system rejects your filing, then you likely chose the 12-month period ending June 30 as your tax year (the Order's "fraternal year"). The ePostcard is due every year by the 15<sup>th</sup> day



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of the 5<sup>th</sup> month after the close of your tax year. So, for example, if your tax year ends December 31, the ePostcard is due by May 15 of the following year. While you may file the e-Postcard before the deadline, you may not file the e-Postcard until after your tax year ends. Keep in mind that you may file the e-Postcard only for the tax year that is currently due. The system does not allow you to file ePostcards for prior years. There is a list of Frequently Asked Questions at the bottom of the IRS page to help answer any questions you may have.

The IRS may revoke the tax-exempt status of any organization that fails to meet its annual filing requirement for three consecutive years. Therefore, councils that do not file a Form 990N/e-Postcard, Form 990, or Form 990-EZ for three consecutive years may have their tax-exempt status revoked as of the filing due date of the third year. If your council is delinquent with its filings, you should immediately contact a tax advisor.

If you have specific questions about the IRS e-Postcard filing requirements, please click on the following link:

[Exempt Organizations e-File - e-Postcard | Internal Revenue Service \(irs.gov\)](#)

Council officers and members should be well acquainted with all phases of operations where home corporations are concerned. Regular and complete reports should be made to the council by the corporation Trustees. There should also be a periodic review as to the manner in which various activities are conducted under the auspices of the corporation board.

### DEFINED

Councils 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, nonprofit corporations 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).

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.)

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.

### 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



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members formed the home corporation. Each home corporation also must file its own application for tax exempt status on IRS Form 1024. A 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. Also, a home corporation should maintain its own records and bank accounts. Donations to a home corporation are not deductible for income tax purposes.

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 nonmembers (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.

### 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(0(4), certain contributions** by an individual (as opposed to a business or corporation) may be deductible, **provided** that the funds are set aside and used exclusively **for charitable purposes.**" 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.<sup>12</sup> 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.

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 should maintain a current file that indicates compliance with this provision of federal law.

If any Knights of Columbus council utilizes the pass-through charitable fundraising mechanism of IRC Section 170(c)(4) or Section 2055(a)(3), and has annual gross receipts of \$50,000 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).

If a council has annual gross receipts of \$50,000 or less, excluding passthrough receipts, it is required only to file Form 990-N, as set forth in Section II, above, unless its year-end assets are \$500,000 or more. If the council has year-end assets of \$500,000 or more, then it must file a Form 990 or 990-EZ.

### 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



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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.

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.

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 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 actually conducting the gaming operations.

### CONCLUSION

In sum, although the Knights of Columbus is a tax-exempt organization, all subordinate councils 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, you may contact the Supreme Advocate's office at 203752- 4557.

### **8. Sign the nomination form for the appointment of the Financial Secretary**

#### ELIGIBILITY – FINANCIAL SECRETARY

The Board of Trustees shall assist the Grand Knight in the selection and evaluation of the Financial Secretary. The Charter Constitution Laws of our Order set forth the following requirements for appointment of a "Financial Secretary": "Only members who have been initiated in the first three degrees of the Order shall be eligible for any office in subordinate, state or Supreme Councils or in the Order. This shall not apply to the first officers of a new subordinate council ..." (Section 92).

In addition, Section 128 of the Charter Constitution Laws makes the following provisions regarding the appointment of a Financial Secretary: "The Financial Secretary shall be appointed by the Supreme Knight.

He shall hold office at the will of the Supreme Knight." He must also be at least 21 years of age and cannot be engaged in the sale of life or health insurance for another organization.

In regard to college councils, at the October 1991 meeting of the Board of Directors, it was voted that new college councils may not be instituted unless a member of the faculty or staff of the school or a permanent resident of the



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local community has agreed to serve in the position of Financial Secretary. It was further voted that this regulation should also apply to Financial Secretary reappointments in college councils.

Financial Secretary applicants who fail to meet any of the above requirements will not be considered for appointment. Financial Secretaries who become engaged in the sale of life or health insurance for another organization after accepting appointment must notify the Supreme Knight immediately so arrangements can be made for the appointment of a successor to the office.

If a Financial Secretary must resign from office before the end of the term, he should send a brief letter of resignation to the Supreme Knight noting the effective date of the termination and the reason for doing so. This should be done as far in advance as possible. It is to be remembered that every Financial Secretary has been appointed on the condition that he will remain in office if needed, until the Supreme Knight has been able to appoint the new Financial Secretary. Hence, the importance of advance notice cannot be overemphasized. Sufficient time is needed to secure applicants for the position and to process the paperwork required for the appointment.

When the Financial Secretary's resignation is acknowledged by the Supreme Knight or if a vacancy occurs for some other reason, the Grand Knight is provided with complete instructions and forms (FS101-[Application for Appointment as Financial Secretary \(kofc.org\)](http://kofc.org) and FS103-[Nomination for Appointment as Financial Secretary \(kofc.org\)](http://kofc.org)) for the appointment of a successor to the office.

The Grand Knight will then nominate one or more members. The Supreme Knight requires that the Trustees concur in the selection of applicants. They do this by signing the Nomination form (FS103) in the space provided. When all the forms have been completed and returned, the Supreme Knight will make a new appointment. The appointment will be mailed directly to the newly-appointed Financial Secretary, with a copy to the State Deputy, the District Deputy, the Grand Knight and the local General Agent. If the Jurisdiction has an Executive Secretary, he, too, will receive a copy of the appointment. The appointment takes effect on the date it is issued and will run for a period of three years from that date.

In cases where a Financial Secretary fails in the performance of his duties, the Grand Knight and Trustees should send a statement of facts to the Supreme Knight. The statement should be based on the Laws of the Order, principally Section 139. A copy of the statement should be provided to the State Deputy.

If a Financial Secretary is aware that he will be incapacitated by illness for more than three or four weeks, it is his obligation not only to advise the Grand Knight, but also to make arrangements for as near normal operation as possible. The accounts should be turned over to the Board of Trustees who should select a temporary Financial Secretary. If there is an accountant available in the council, the Board of Trustees could request his assistance on an "emergency" basis.

Where a Financial Secretary is unable to make arrangements in advance and the Grand Knight has knowledge that the Financial

Secretary will be unable to carry out his duties for some time, the Grand Knight should obtain the council records and any money in the possession of the Financial Secretary. This should and can be done by tactfully explaining the Council's position either to the Financial Secretary or to a member of his family.





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### 9. Participate in the evaluation of the Financial Secretary's performance every three years with the Grand Knight

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Ninety (90) days prior to the conclusion of a Financial Secretary's three-year term in the office, the Grand Knight of the council is advised that an evaluation of his performance in the office must be made and returned to the Supreme Knight before consideration will be given to the re-appointment of an additional three-year term. The Financial Secretary receives a copy of the Supreme Knight's letter to the Grand Knight.

The evaluation (Form 1938) ( [Evaluation of Financial Secretary \(kofc.org\)](http://kofc.org) ) calls for the Grand Knight, the three Trustees and the council's District Deputy to evaluate the Financial Secretary's performance in the office by checking one of the four designations; i.e., excellent, good, fair or poor, in each of the eight categories shown on the form. Space is also provided to indicate recommendation or non-recommendation for re-appointment. **The completed evaluation must include the signatures of the Grand Knight, the Trustees and the District Deputy** before forwarding to the State Deputy for his endorsement and subsequent mailing to the Supreme Knight.

### 10. Serve on the council's retention committee and sign all Knight Alerts

#### Retention Committee

The Council Retention Committee consists of the Deputy Grand Knight as chairman and the Trustees. They apply the principle of Fraternity to work with our brothers who find themselves out of communication with the rest of the membership. The task includes re-recruitment and all actions on non-payment of dues.

Trustees *should* willingly serve on the council's retention committee. They are best suited here especially when they are Past Grand Knights and are intimately familiar with the council's membership roster many of the members.

Another reason for the Trustees to serve here that ***your council pays per capita and Catholic Advertising assessments*** to Supreme and the Michigan Knights of Columbus ***even for members who are not paying their dues.*** Since the council's financial well-being is your responsibility, you have a vested interest in retaining members or seeing that the Financial Secretary follows the correct procedures for suspension of members who are delinquent in their dues payments.

But even before any delinquency, the Retention Committee should contact a few members each month that have not attended meetings recently. Ask about their family, their health, if they need a ride to the meeting, would they be able to help at the upcoming events, do they have an e-mail address, do they know someone that would like to join the Knights.

See [Retention Director - How to Execute the Retention Process \(PDF\) 20.11 \(mikofc.org\)](#) for details