

City of Menifee
Finance Committee
29714 Haun Road
Menifee, CA 92714
January 13, 2010 – 5:00 P.M.



Agenda

- 1. Call to order**
- 2. Public Comments**
- 3. Approval of Minutes of December 14, 2009 Finance Committee**
Recommended Action – Approve Minutes of December 14, 2009
- 4. Discussion and Review of Policy for Community Support Funding**
Recommended Action – Approve Community Support Policy as presented
- 5. Discussion of Items Removed from Warrant Register of January 5, 2010**
Recommended Action – Approve invoices for PV Maintenance and Winzler and Kelly
- 6. Processing of City Attorney Invoices**
Recommended Action – Invoices of City Attorney be reviewed by City Councilmembers prior to being placed on warrant register
- 7. Purchases/Contracts over \$10,000**
Recommended Action – Informational, receive and file
- 8. Committee Members Comments**
- 9. City Manager Comments**
- 10. Adjournment**

CERTIFICATION

I, Kathy Bennett, City Clerk of the City of Menifee, do hereby certify that I posted a copy of the foregoing Agenda at the following three locations:

Menifee City Hall, 29714 Haun Road, Menifee, CA 92586
Sun City Library, 26892 Cherry Hills Blvd., Menifee, CA 92586
Kay Cenicerros Community Center, 29995 Evans Rd., Menifee, CA 92586
On January 8, 2009, at 4 p.m.

Kathy Bennett, City Clerk

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, you should contact Kathy Bennett, City Clerk at (951) 672-6777. Notification 72 hours prior to the meeting will enable the City to make reasonable arrangements to assure accessibility to this meeting.

Staff Reports

Materials related to an item on this Agenda, including those submitted to the City Council after distribution of the agenda packet are available for public inspection by contacting Kathy Bennett, City Clerk, at (951) 672-6777 during normal business hours.

City of Menifee
Finance Committee
January 13, 2010 – 5:00 P.M.

City Manager position statement for each agenda item

- Item #1. City Clerk to call roll
- Item #2. Public Comments on non-agenda items
- Item #3. Recommend approval of minutes as proposed
- Item #4. Recommend approval of Community Support Policy as presented.
- Item #5. City Manager recommended payment of the invoices for PV Maintenance and Winzler & Kelly as part of the Warrant Register included on the January 5, 2010 City Council Agenda. These items were removed from the agenda by Councilmember Mann for review by the Finance Committee. Staff is not aware of the issue(s) but is prepared to address the matter during the meeting.
- Item #6. City Manager is recommending that all invoices submitted by the City Attorney be reviewed and approved by the City Council prior to authorization of payment. Since the City Attorney reports directly to the City Council, the City Manager believes it would be a better practice to have expenditures reviewed by the City Council since many activities of the City Attorney are originated by the City Council and the City Manager is not always aware of that level of effort that has been requested by various City Council members. Although there is no evidence that the current process is not satisfactory, the proposed process would assure that expenditures made are in line with direction of City Council members and should provide more accurate control over expenditures.
- Item #7. The City Manager will provide a list of the current consulting contracts and their status to the Finance Committee at the meeting. This will help assure that the Committee and City Council is aware of their status and upcoming activities related to the various contracts by the City Manager.
- Item #8. Any additional items as presented by Finance Committee members
- Item #9. Any additional comments by the City Manager or his staff based on the meeting
- Item #10. Adjournment of meeting

**City of Menifee Finance Committee
Meeting Minutes
December 14, 2009**

1. Call to order

Chairman Mann called the meeting to order at 4:09 p.m. Present were: Chairman Scott Mann, Committee member Wallace Edgerton, City Manager George Wentz, Administrative Services Director Gary Thompson, Director of Community Development Carmen Cave, Senior Accountant Wendy Welch, Mia Corral and Kay Chandler of Chandler Asset Management and one member of the public.

2. Public Comments

None.

3. Approval of Minutes of November 9, 2009 Finance Committee

The minutes of November 9, 2009 were approved as presented.

4. Chandler Asset Management Presentation

Mia Corral, V.P. and Kay Chandler, President of Chandler Asset Management gave an overview of their services and asked the committee to consider such issues as risk tolerance level. Administrative Services Director Thompson explained to the committee that he would like input as to the amount of money to be transferred from LAIF to the custodial account to begin the investments through Chandler. Following the presentation and questions, the committee agreed with the staff recommendation to authorize approximately 33% of the City's reserve currently invested in LAIF to deposit to the custodial account for the investment portfolio.

5. Discussion and Review of Policy for Community Support Funding

Committee Chairman Mann asked for this item to be held over for one more meeting until the committee members could review the need for funding in the City. He asked if it would be possible to get an idea of the types of non-profit organizations in Menifee listed. It was agreed to place this on the next Finance Committee agenda.

6. Discussion of VLF fees

Director Thompson reported on the fact that the fees are not in for the year. After discussing with the League representative and others, it was determined necessary to re-engage lobbyist Jim Lites to follow this issue and report back on the City's behalf. The committee agreed that it was time to put a plan together and re-engage Mr. Lites.

7. Approval of SLESF (COPS) Expenditure Plan for 2009-2010 Fiscal Year

Director Thompson distributed the possible plans for use of the funds. The committee decided on plan 2 and with the balance left to put the funds toward the purchase of one motorcycle unit for use beginning in the next fiscal year.

8. Approval of Quail Valley Emergency Pumping Program

a. Approve hiring federal lobbyist

Under Item a. Chairman Mann stated that he has solicited a proposal from a lobbyist, for use on Line A and the Quail Valley Septic program, that he hopes the City Manager will approve. Chairman Mann agreed to report at Council meeting as needed and will await proposal.

b. Approve pumping program

City Manager Wentz stated he did not intend to use any general fund money or gas tax for this project. He noted that CSA funds were able to be used and explained the use. He noted the expenditures were targeted for areas 4 and 9 in Quail Valley. Chairman Mann asked if this would be used for preventative measures or only in emergency and the City Manager agreed only for emergency use, not preventative.

Administrative Services Director Thompson agreed to an item on a future agenda for analysis of funding for all CSA's as to the acceptable reserve level.

9. Purchases/Contracts over \$10,000

City Manager Wentz noted that per the new policy, all items of expenditure in excess of \$10,000 will first come to the Finance Committee for consideration and recommendation before being approved or going to the City Council.

a. Traffic Engineer

City Manager Wentz reported that twelve responses were received to the Request for Proposals that went out. Following interviews two firms were selected. Primary firm selected was RBF and Hartog Krabel was selected as a back up proposal. He further noted that any possible perceived conflict due to a Planning Commissioner (Zimmerman) being employed by the firm was considered by the City Attorney and found to not be an issue or conflict and Chairman Mann asked the City Manager to state that fact at the Council meeting. Otherwise the committee agreed with the recommendation as presented.

b. Radios for Code and Emergency Purposes

Community Development Director Cave reported on the need for and use of the radios. Chairman Mann asked her to verify the interoperability between emergency personnel and code enforcement personnel, etc. She agreed to follow that request and work with Michael Anderson on the issue. The funds would be split between emergency operations and code enforcement budget and were approved by the Finance Committee.

10. Budget Update – FY 2009-10 1st Quarter

Director Thompson reported on the income and expenditures as compared to the budget and have an update on the early projections that should allow for an increase in reserves at the end of the fiscal year of \$930,000.

11. Committee Members Comments

Chairman Mann asked if during the community clean up day in Quail Valley it would be possible to do targeted animal control enforcement. He noted that this request is a result of attending the Quail Valley meeting where the animal control problem is a primary concern, specifically animals at large. The City Manager agreed to forward that request for consideration.

12. City Manager Comments

None further.

13. Adjournment

The meeting was adjourned at 6:06 p.m.

Kathy Bennett, City Clerk

CITY OF MENIFEE City Council Policy	Policy Number: 05
Subject Requests for Community Support Funding	Effective Date: _____
	Page 1 of 2

PURPOSE AND BACKGROUND.

The purpose of this Policy is to establish a formal process during the City of Meniffee's annual budget process for consideration of funding requests by non profit groups, events or organizations that benefit the Meniffee community. Non-profit groups and organizations are defined as those organizations with a current Internal Revenue Service (IRS) ruling letter designating them as a 501(c) (3), or with a current (4) or (6) non-profit corporation status. The City Council may also consider requests for support of community events that demonstrate a direct public benefit.

Participation in this process and submission of a request for funding is in no way a guarantee of receipt of funds. The City reserves the right to allocate funds at its discretion, to determine the amount of funds allocated, and not to allocate any funds during any fiscal year for monetary or other reasons. Except for true emergencies, no funds will be awarded outside this process.

POLICY.

In order to effectively and equitably respond to requests for funding, the following guidelines shall be followed:

- 1) The City Council will determine the total level of charitable funding, if any, annually in conjunction with the City's budget process.

- 2) All funding requests must be submitted on an application form (Attachment A) that is available through the City's Administrative Services Department or can be downloaded from the City's website at www.cityofmeniffee.us. A copy of the organization's IRS ruling letter (including an advance ruling letter for new organizations) for a 501(c)(3) or other evidence for 501 (c) (4) or (6) shall be attached to the application and is subject to verification. An organization may provide additional supporting documentation (i.e. letters) with the application that further substantiates the funding request. Completed applications may be submitted on a continual basis throughout the fiscal year; however, the City Council will review the funding requests only during the annual budget workshops in the spring. Late submittals will be held over to the next fiscal year. The dates of the budget workshops will be publicized in advance so that community organizations are aware of the submittal date. It is highly encouraged that organizations requesting funding have a representative attend the budget workshops to speak on behalf of the funding request.

CITY OF MENIFEE City Council Policy	Policy Number: 05
Subject Requests for Community Support Funding	Effective Date: _____ Page 2 of 2

3) The City Council shall utilize the following funding philosophy when considering charitable funding requests:

- *The City Council will consider requests for funding received from community based organizations during the regular budget process. Due to limited resources, in some cases no requests and generally not all requests can be funded. Therefore, it is the City Council's intention to evaluate each proposal independently of the others, and based upon available funds and the merits of each proposal, if funding is provided, provide money to those organizations which most effectively serve the needs and improve the well-being of Meniffee residents. Further, the City Council encourages a goal of self-sufficiency for all community based organizations seeking City funding. City-allocated funds are not intended to provide on-going funding to established programs and services. Allocations shall be made at the sole discretion of the City Council.*
- *The City Council will not consider any funding request that is not in the best interests of the city as an entity or as a whole, or for a program that conflicts with a City program, police or rule.*

4) The City Council will consider each funding request at the annual budget workshops. The City Council will provide direction to staff to prepare a list of events and/or organizations whose funding requests will be considered as part of the final budget. Staff shall then prepare a staff report outlining the event or organization and the amount of funding requested. In addition, the staff report will include the funding request application form and any supporting materials from the organization requesting funding from the City.

5) Following the annual budget workshops, the staff report shall be placed on the City Council agenda for formal action. If approved, the Administrative Services Department will process the contribution for the event or organization.

6) Emergency funding requests that could not be indentified during the budget process, and cannot be carried over to the next cycle, may be considered on a case by case basis.

7) At the close of the fiscal year (June 30), all City appropriations cease and any unallocated funding will not be carried over to the next fiscal year.



CITY OF MENIFEE
REQUEST FOR FUNDING APPLICATION
COMMUNITY-BASED ORGANIZATIONS

FUNDING INFORMATION	
NAME OF ORGANIZATION:	CONTACT PERSON:
STREET ADDRESS:	CITY, STATE, ZIP:
TELEPHONE:	EMAIL ADDRESS AND/OR WEBSITE:
AMOUNT REQUESTED: \$	DATE FUNDING NEEDED:
DESCRIPTION OF PROJECT/EVENT (INCLUDE START DATE):	
ORGANIZATIONAL INFORMATION	
NATURE OF ORGANIZATION:	
GEOGRAPHIC AREA(S) SERVED:	YEAR FOUNDED:
NUMBER OF PAID STAFF:	NUMBER OF VOLUNTEERS:
ANNUAL BUDGET: \$	
(PLEASE INCLUDE A COPY OF YOUR MOST RECENT TREASURER'S REPORT OR FINANCIAL STATEMENT)	
IS THIS ORGANIZATION INCORPORATED IN CALIFORNIA AS A NON-PROFIT ORGANIZATION? IF YES, DATE OF INCORPORATION AS A NON-PROFIT:	

RETURN TO: City of Menifee Administrative Services Department
29714 Haun Road, Menifee, CA 92586
Phone: (951) 672-6777 Fax: (951) 679-3843

PLEASE INDICATE HOW THE MONEY ALLOCATED WILL BE USED BY YOUR ORGANIZATION:
IF THE FUNDS WILL BE USED FOR A SPECIFIC EVENT, PROVIDE A DETAILED DESCRIPTION OF THE EVENT.

BRIEFLY DESCRIBE THE GOALS AND OBJECTIVES OF YOUR ORGANIZATION (MISSION STATEMENT) AND
THE MAJOR COMMUNITY SERVICES IT PROVIDES:

**WE HEREBY CERTIFY THAT THE INFORMATION CONTAINED IN THIS APPLICATION
IS TRUE AND COMPLETE TO THE BEST OF OUR KNOWLEDGE.**

Signature of Individual Preparing Form: Title & Date

Signature of Authorized Agent/Officer: Title & Date

Name of Organization

Address, City, State & Zip

Attach a copy of the organizations 501(c)3 IRS Ruling Letter or other evidence if a 501(c)4 or 6

RETURN TO: City of Menifee Administrative Services Department
29714 Haun Road, Menifee, CA 92586
Phone: (951) 672-6777 Fax: (951) 679-3843

501(c)(4) - Civic Leagues and Social Welfare Organizations

If your organization is not organized for profit and will be operated only to promote social welfare, you should file Form 1024 to apply for recognition of exemption from federal income tax under section 501(c)(4). The discussion that follows describes the information you must provide when applying. For application procedures, see chapter 1.

To qualify for exemption under section 501(c)(4), the organization's net earnings must be devoted only to charitable, educational, or recreational purposes. In addition, no part of the organization's net earnings may benefit any private shareholder or individual. If the organization provides an excess benefit to certain persons, an excise tax may be imposed. See *Excise tax on excess benefit transactions* under *Excess Benefit Transactions* in chapter 5 for more information about this tax.

Examples. Types of organizations that are considered to be social welfare organizations are civic associations and volunteer fire companies.

Nonprofit operation. You must submit evidence that your organization is organized and will be operated on a nonprofit basis. However, such evidence, including the fact that your organization is organized under a state law relating to nonprofit corporations, will not in itself establish a social welfare purpose.

Social welfare. To establish that your organization is organized exclusively to promote social welfare, you should submit evidence with your application showing that your organization will operate primarily to further (in some way) the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements).

An organization that restricts the use of its facilities to employees of selected corporations and their guests is primarily benefiting a private group rather than the community. It therefore does not qualify as a section 501(c)(4) organization. Similarly, an organization formed to represent member-tenants of an apartment complex does not qualify, since its activities benefit the member-tenants and not all tenants in the community. However, an organization formed to promote the legal rights of all tenants in a particular community may qualify under section 501(c)(4) as a social welfare organization.

Political activity. Promoting social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. However, if you submit proof that your organization is organized exclusively to promote social welfare, it may still obtain exemption even if it participates legally in some political activity on behalf of or in opposition to candidates for public office. See the discussion in chapter 2 under *Political Organization Income Tax Return*.

Social activity. If social activities will be the primary purpose of your organization, you should not file an application for exemption as a social welfare organization but should file for exemption as a social club described in section 501(c)(7).

Retirement benefit program. An organization established by its members that has as its primary activity providing supplemental retirement benefits to its members or death benefits to their beneficiaries does not qualify as an exempt social welfare organization. It may qualify under another paragraph of section 501(c) depending on all the facts.

However, a nonprofit association that is established, maintained, and funded by a local government to provide the only retirement benefits to a class of employees may qualify as a social welfare organization under section 501(c)(4).

Tax treatment of donations. Donations to volunteer fire companies are deductible on the donor's federal income tax return, but only if made for exclusively public purposes. Contributions to civic leagues or other section 501(c)(4) organizations generally are not deductible as charitable contributions for federal income tax purposes. They may be deductible as trade or business expenses, if ordinary and necessary in the conduct of the taxpayer's business. However, see *Deduction not allowed for dues used for political or legislative activities* under *501(c)(6) - Business Leagues, etc.* for more information.

Specific Organizations

The following information should be contained in the application form and accompanying statements of certain types of civic leagues or social welfare organizations.

Volunteer fire companies. If your organization wishes to obtain exemption as a volunteer fire company or similar organization, you should submit evidence that its members are actively engaged in fire fighting and similar disaster assistance, whether it actually owns the fire fighting equipment, and whether it provides any assistance for its members, such as death and medical benefits in case of injury to them.

If your organization does not have an independent social purpose, such as providing recreational facilities for members, it may be exempt under section 501(c)(3). In this event, your organization should file Form 1023.

Homeowners' associations. A membership organization formed by a real estate developer to own and maintain common green areas, streets, and sidewalks and to enforce covenants to preserve the appearance of the development should show that it is operated for the benefit of all the residents of the community. The term community generally refers to a geographical unit recognizable as a governmental subdivision, unit, or district thereof. Whether a particular association meets the requirement of benefiting a community depends on the facts and circumstances of each case. Even if an area represented by an association is not a community, the association can still qualify for exemption if its activities benefit a community.

The association should submit evidence that areas such as roadways and park land that it

owns and maintains are open to the general public and not just its own members. It also must show that it does not engage in exterior maintenance of private homes.

A homeowners' association that is not exempt under section 501(c)(4) and that is a condominium management association, a residential real estate management association, or a timeshare association generally may elect under the provisions of section 528 to receive certain tax benefits that, in effect, permit it to exclude its exempt function income from its gross income.

Other organizations. Other nonprofit organizations that qualify as social welfare organizations include:

- An organization operating an airport that is on land owned by a local government, which supervises the airport's operation, and that serves the general public in an area with no other airport,
- A community association that works to improve public services, housing and residential parking; publishes a free community newspaper; sponsors a community sports league, holiday programs and meetings; and contracts with a private security service to patrol the community,
- A community association devoted to preserving the community's traditions, architecture, and appearance by representing it before the local legislature and administrative agencies in zoning, traffic, and parking matters,
- An organization that tries to encourage industrial development and relieve unemployment in an area by making loans to businesses so they will relocate to the area, and
- An organization that holds an annual festival of regional customs and traditions.

501(c)(5)- Labor, Agricultural, and Horticultural Organizations

If you are a member of an organization that wants to obtain recognition of exemption from federal income tax as a labor, agricultural, or horticultural organization, you should submit an application on Form 1024. You must indicate in your application for exemption and accompanying statements that your organization will not have any net earnings benefiting any member. In addition, you should follow the procedure for obtaining recognition of exempt status described in chapter 1. Submit any additional information that may be required, as described in this section.

Tax treatment of donations. Contributions to labor, agricultural, and horticultural organizations are not deductible as charitable contributions on the donor's federal income tax return. However, such payments may be deductible as

business expenses if they are ordinary and necessary in the conduct of the taxpayer's trade or business. For more information about certain limits affecting the deductibility of these business expenses, see *Deduction not allowed for dues used for political or legislative activities under 501(c)(6) - Business Leagues, etc.*

Labor Organizations

A labor organization is an association of workers who have combined to protect and promote the interests of the members by bargaining collectively with their employers to secure better working conditions.

To show that your organization has the purpose of a labor organization, you should include in the articles of organization or accompanying statements (submitted with your exemption application) information establishing that the organization is organized to better the conditions of workers, improve the grade of their products, and develop a higher degree of efficiency in their respective occupations. In addition, no net earnings of the organization may benefit any member.

Composition of membership. While a labor organization generally is composed of employees or representatives of the employees (in the form of collective bargaining agents) and similar employee groups, evidence that an organization's membership consists mainly of workers does not in itself indicate an exempt purpose. You must show in your application that your organization has the purposes described in the preceding paragraph. These purposes may be accomplished by a single labor organization acting alone or by several organizations acting together through a separate organization.

Benefits to members. The payment by a labor organization of death, sick, accident, and similar benefits to its individual members with funds contributed by its members, if made under a plan to better the conditions of the members, does not preclude exemption as a labor organization. However, an organization does not qualify for exemption as a labor organization if it has no authority to represent members in job-related matters, even if it provides weekly income to its members in the event of a lawful strike by the members' union, in return for an annual payment by the member.

Agricultural and Horticultural Organizations

Agricultural and horticultural organizations are connected with raising livestock, forestry, cultivating land, raising and harvesting crops or aquatic resources, cultivating useful or ornamental plants, and similar pursuits.

For the purpose of these provisions, aquatic resources include only animal or vegetable life, but not mineral resources. The term harvesting, in this case, includes fishing and related pursuits.

Agricultural organizations may be quasi-public in character and are often designed to encourage the development of better agricultural and horticultural products through a system of awards, using income from entry fees, gate receipts, and donations to meet the necessary expenses of upkeep and operation. When the

activities are directed toward the improvement of marketing or other business conditions in one or more lines of business, rather than the improvement of production techniques or the betterment of the conditions of persons engaged in agriculture, the organization must qualify for exemption as a business league, board of trade, or other organization, as discussed next in the section on 501(c)(6) organizations.

The primary purpose of exempt agricultural and horticultural organizations must be to better the conditions of those engaged in agriculture or horticulture, develop more efficiency in agriculture or horticulture, or improve the products.

The following list contains some examples of activities that show an agricultural or horticultural purpose.

1. Promoting various cooperative agricultural, horticultural, and civic activities among rural residents by a state and county farm and home bureau.
2. Exhibiting livestock, farm products, and other characteristic features of agriculture and horticulture.
3. Testing soil for members and nonmembers of the farm bureau on a cost basis, the results of the tests and other recommendations being furnished to the community members to educate them in soil treatment.
4. Guarding the purity of a specific breed of livestock.
5. Encouraging improvements in the production of fish on privately-owned fish farms.
6. Negotiating with processors for the price to be paid to members for their crops.

501(c)(6) - Business Leagues, etc.

If your association wants to apply for recognition of exemption from federal income tax as a nonprofit business league, chamber of commerce, real estate board, board of trade, or professional football league (whether or not administering a pension fund for football players), it should file Form 1024. For a discussion of the procedure to follow, see chapter 1.

Your organization must indicate in its application form and attached statements that no part of its net earnings will benefit any private shareholder or individual and that it is not organized for profit or organized to engage in an activity ordinarily carried on for profit (even if the business is operated on a cooperative basis or produces only sufficient income to be self-sustaining).

In addition, your organization must be primarily engaged in activities or functions that are the basis for its exemption. It must be primarily supported by membership dues and other income from activities substantially related to its exempt purpose.

A business league, in general, is an association of persons having some common business interest, the purpose of which is to promote that common interest and not to engage in a regular

business of a kind ordinarily carried on for profit. Trade associations and professional associations are considered business leagues.

Chamber of commerce. A chamber of commerce usually is composed of the merchants and traders of a city.

Board of trade. A board of trade often consists of persons engaged in similar lines of business. For example, a nonprofit organization formed to regulate the sale of a specified agricultural commodity to assure equal treatment of producers, warehouse workers, and buyers is a board of trade.

Chambers of commerce and boards of trade usually promote the common economic interests of all the commercial enterprises in a given trade community.

Real estate board. A real estate board consists of members interested in improving the business conditions in the real estate field. It is not organized for profit and no part of the net earnings benefits any private shareholder or individual.

General purpose. You must indicate in the material submitted with your application that your organization will be devoted to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. It must be shown that the conditions of a particular trade or the interests of the community will be advanced. Merely indicating the name of the organization or the object of the local statute under which it is created is not enough to demonstrate the required general purpose.

Line of business. This term generally refers either to an entire industry or to all components of an industry within a geographic area. It does not include a group composed of businesses that market a particular brand within an industry.

Common business interest. A common business interest of all members of the organization must be established by the application documents.

Examples. Activities that would tend to illustrate a common business interest are:

1. Promotion of higher business standards and better business methods and encouragement of uniformity and cooperation by a retail merchants association,
2. Education of the public in the use of credit,
3. Establishment of uniform casualty rates and compilation of statistical information by an insurance rating bureau operated by casualty insurance companies,
4. Establishment and maintenance of the integrity of a local commercial market,
5. Operation of a trade publication primarily intended to benefit an entire industry, and
6. Encouragement of the use of goods and services of an entire industry (such as a lawyer referral service whose main purpose is to introduce individuals to the use of the legal profession in the hope that they will enter into lawyer-client relationships on a paying basis as a result).

Improvement of business conditions. Generally, this must be shown to be the purpose of the organization. This is not established by evidence of particular services that provide a convenience or economy to individual members in their businesses, such as advertising that carries the name of members, interest-free loans, assigning exclusive franchise areas, operation of a real estate multiple listing system, or operation of a credit reporting agency.

X **Stock or commodity exchange.** A stock or commodity exchange is not a business league, chamber of commerce, real estate board, or board of trade and is not exempt under section 501(c)(6).

X **Legislative activity.** An organization that is exempt under section 501(c)(6) may work for the enactment of laws to advance the common business interests of the organization's members.

Deduction not allowed for dues used for political or legislative activities. A taxpayer cannot deduct the part of dues or other payments to a business league, trade association, labor union, or similar organization that is for any of the following activities.

1. Influencing legislation.
2. Participating or intervening in a political campaign for, or against, any candidate for public office.
3. Trying to influence the general public, or part of the general public, with respect to elections, legislative matters, or referendums (also known as grassroots lobbying).
4. Communicating directly with certain executive branch officials to try to influence their official actions or positions.

See *Dues Used for Lobbying or Political Activities* under *Required Disclosures* in chapter 2 for more information.

Exception for local legislation. Members may deduct dues (or assessments) to an organization that are for expenses of:

1. Appearing before, submitting statements to, or sending communications to members of a local council or similar governing body with respect to legislation or proposed legislation of direct interest to the member, or
2. Communicating information between the member and the organization with respect to local legislation or proposed legislation of direct interest to the organization or the member.

Legislation or proposed legislation is of direct interest to a taxpayer if it will, or may reasonably be expected to, affect the taxpayer's trade or business.

De minimis exception. In-house expenditures of \$2,000 or less for the year for activities (1) – (4) listed earlier will not prevent a deduction for dues, if the dues meet all other tests to be deductible as a business expense.

Grassroots lobbying. A tax-exempt trade association, labor union, or similar organization is considered to be engaging in grassroots lobbying if it contacts prospective members or calls

upon its own members to contact their employees and customers for the purpose of urging such persons to communicate with their elected state or Congressional representatives to support the promotion, defeat, or repeal of legislation that is of direct interest to the organization. Any dues or assessments directly related to such activities are not deductible by the taxpayer, since the individuals being contacted, who are not members of the organization, are a segment of the general public.

Tax treatment of donations. Contributions to organizations described in this section are not deductible as charitable contributions on the donor's federal income tax return. They may be deductible as trade or business expenses if ordinary and necessary in the conduct of the taxpayer's business.

501(c)(7) - Social and Recreation Clubs

If your club is organized for pleasure, recreation, and other similar nonprofitable purposes and substantially all of its activities are for these purposes, it should file Form 1024 to apply for recognition of exemption from federal income tax.

In applying for recognition of exemption, you should submit the information described in this section. Also see chapter 1 for the procedures to follow.

Typical organizations that should file for recognition of exemption as social clubs include:

- College alumni associations that are not described in chapter 3 under *Alumni association*,
- College fraternities or sororities operating chapter houses for students,
- Country clubs,
- Amateur hunting, fishing, tennis, swimming, and other sport clubs,
- Dinner clubs that provide a meeting place, library, and dining room for members,
- Hobby clubs,
- Garden clubs, and
- Variety clubs.

Discrimination prohibited. Your organization will not be recognized as tax exempt if its charter, bylaws, or other governing instrument, or any written policy statement provides for discrimination against any person on the basis of race, color, or religion.

However, a club that in good faith limits its membership to the members of a particular religion to further the teachings or principles of that religion and not to exclude individuals of a particular race or color will not be considered as discriminating on the basis of religion. Also, the restriction on religious discrimination does not apply to a club that is an auxiliary of a fraternal beneficiary society (discussed later) if that society is described in section 501(c)(8) and exempt from tax under section 501(a) and limits its

membership to the members of a particular religion.

Private benefit prohibited. No part of the organization's net earnings may benefit any person having a personal and private interest in the activities of the organization. For purposes of this requirement, it is not necessary that net earnings be actually distributed. Even undistributed earnings can benefit members. Examples of this include a decrease in membership dues or an increase in the services the club provides to its members without a corresponding increase in dues or other fees paid for club support. However, fixed-fee payments to members who bring new members into the club are not an inurement of the club's net earnings, if the payments are reasonable compensation for performance of a necessary administrative service.

Purposes. To show that your organization possesses the characteristics of a club within the meaning of the exemption law, you should submit evidence with your application that personal contact, commingling, and fellowship exist among members. You must show that members are bound together by a common objective of pleasure, recreation, and other non-profitable purposes.

Fellowship need not be present between each member and every other member of a club if it is a material part in the life of the organization. A statewide or nationwide organization that is made up of individual members, but is divided into local groups, satisfies this requirement if fellowship is a material part of the life of each local group.

The term other non-profitable purposes means other purposes similar to pleasure and recreation. For example, a club that, in addition to its social activities, has a plan for the payment of sick and death benefits is not operating exclusively for pleasure, recreation, and other non-profitable purposes.

Limited membership. The membership in a social club must be limited. To show that your organization has a purpose that would characterize it as a club, you should submit evidence with your application that there are limits on admission to membership consistent with the character of the club.

A social club that issues corporate membership is dealing with the general public in the form of the corporation's employees. Corporate members of a club are not the kind of members contemplated by the law. Gross receipts from these members would be a factor in determining whether the club qualifies as a social club. See *Gross receipts from nonmembership sources*, later. Bona fide individual memberships paid for by a corporation would not have an effect on the gross receipts source.

The fact that a social club may have an associate (nonvoting) class of membership will not be, in and of itself, a cause for nonrecognition of exemption. However, if one membership class pays substantially lower dues and fees than another membership class, although both classes enjoy the same rights and privileges in using the club facilities, there may be an inurement of income to the benefited class, resulting in a denial of the club's exemption.

Support. In general, your club should be supported solely by membership fees, dues,