



Bonding—it's the law; revocation of tax-exempt status

Recently, 223 NALC branches received a letter from my office advising them that they had been identified by the Office of Labor-Management Standards (OLMS) as being under-bonded according to their 2010 LM report.

All fiduciary officers of a branch or state association should ensure that the organization is correctly bonded to protect the branch or state association's funds from financial losses caused by "fraudulent or dishonest acts" of union officers, employees or other representatives. Information on obtaining a bond, identifying who should be bonded and how much the minimum recovery amount of the bond must be can be found in the *NALC Branch Officer's Guide to Finance and Administration*, available for \$6 from the NALC Supply Department or at nalc.org.

After speaking with a few branch presidents and secretary-treasurers who received my letter, there appears to be confusion about calculating the minimum coverage required by law, which is 10 percent of the total of liquid assets and receipts. A bonding computation worksheet can be found in the *Branch Officer's Guide* and should be used to calculate the bonding requirement, particularly by LM-2 branches.

Common mistakes in calculating the bond amount:

- Reporting the entire dues amount paid by active members, rather than the local dues amount actually received from National Headquarters. This increased the amount of funds that appeared to have been handled, which increased the amount of bonding allegedly required. A branch whose accountant made this mistake was identified as under-bonded when, in fact, the branch's bond was adequate.
- Deducting payments for utilities, office supplies, travel, etc., from total liquid assets and receipts, then calculating the bond amount. This will result in under-bonding.
- Using "liquid assets" from the end of the current year rather than from the start of the fiscal year. When this amount is smaller than at the beginning of the year, it will result in under-bonding.
- Not calculating yearly, and thus falling behind on increasing the amount of coverage possibly needed when merging with another branch or increasing local dues. Every branch and state association should compute its required bonding coverage at the start of each fiscal year, and promptly obtain any increase neces-

sary. A "safety net" rider that covers "excursions" above the maximum reported bond is beneficial.

Other questions that surfaced while discussing bonding issues with fiduciary officers included:

Do I include the value of the branch building, equipment and office furniture on the bond?

No, those are fixed assets, not easily converted to cash.

Under No. 8 on the Bonding Computation Worksheet, do I multiply line A by how many people have access to receipts only, do the same for Line B and add the two together before multiplying the total by 10 percent?

No. Line A and B refer to just one "person" in all cases. Nor do you add the two lines. Merely take the greater of Line A or B and multiply that by 10 percent.

If your branch is having difficulties related to the calculation of the bond or obtaining a bond, please contact your accountant or my office for assistance.

Loss of tax-exempt status—As previously announced in the *NALC Bulletin*, numerous branches have lost their tax-exempt status because they did not file a Form 990 at least once in the past three years. Most of the branches that lost tax-exempt status are zero-income branches and thus should not be greatly affected. However, it is in every branch's interest to maintain its tax-exempt status by following the guidelines of the Internal Revenue Service (IRS). Links to the pertinent "revocation of tax-exempt status" information as well as steps for applying for reinstatement of tax-exempt status are at nalc.org.

Branches with any income must ensure that tax-exempt status is retained or reinstated to avoid paying federal and possibly state and local taxes retroactive to 2008. Tax-exempt status for 501(c)(5) organizations, including unions, means branches and state associations do not pay taxes on dues income (except for Health Plan members—aka associate members). However, if tax-exempt status is lost, taxes on dues income will apply. Branches or state associations that were eligible to file a 990-N can have their tax-exempt status reinstated much more easily than those that should have filed a Form 990 or Form 990-EZ.

Again, I urge all branches or state associations that received a "revocation of tax-exempt status" letter from the IRS to follow the directions on the letter and refer to the information posted on the NALC website. Should you have questions or concerns, please contact your accountant or my office for assistance. ☒