

# ILA Network Transition Meeting



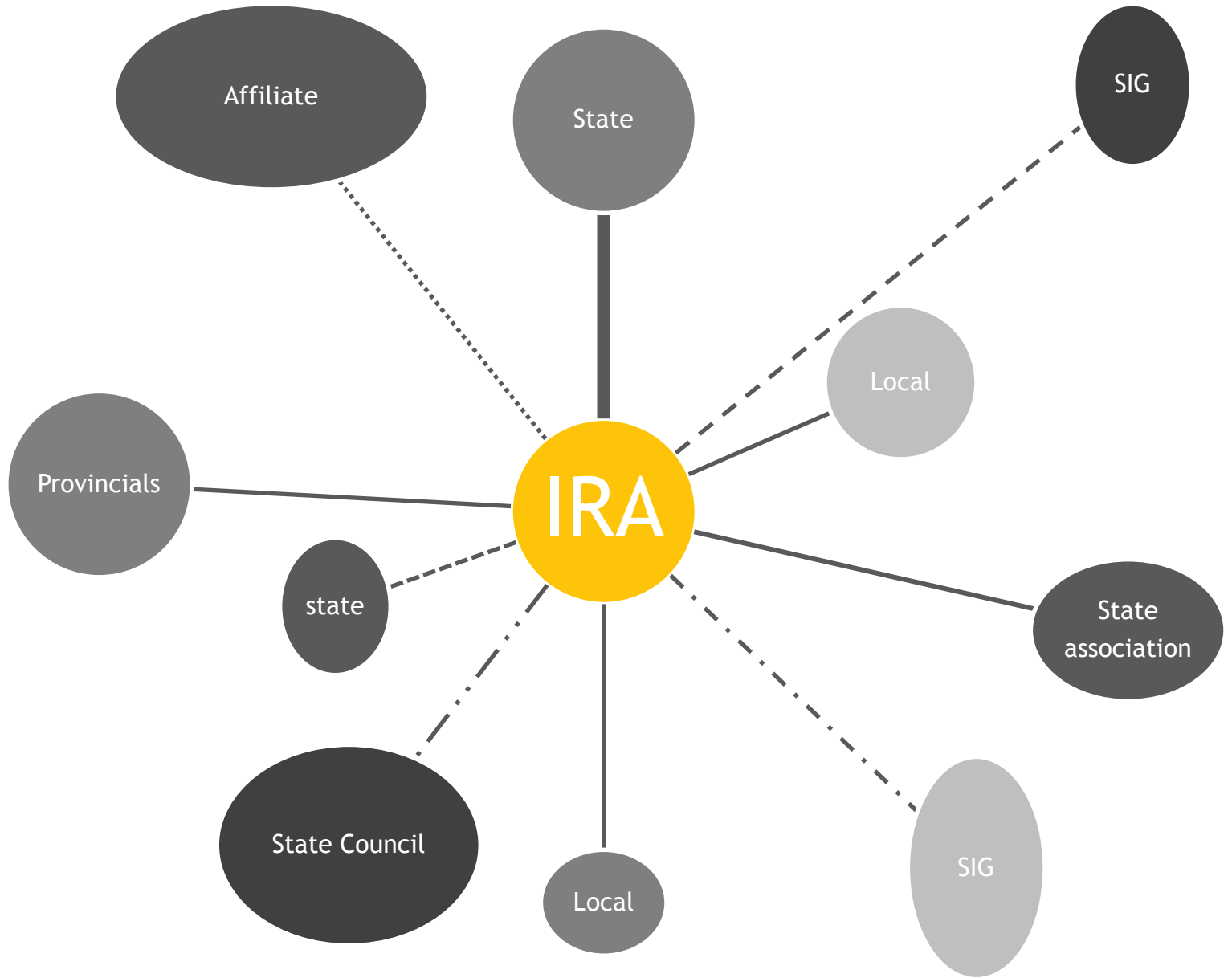
## REASON #1:

ILA's network is  
huge, complex, and  
complicated.



## ILA Network

- Councils (states [councils, associations] locals [regionals, special, student], Provincials, Regional Committees, Affiliates, SIGs, AUA)
- Chartered 1400 US chapters; 600 active
- Outside US: 122 chapters
  - 43 Canadian chapters (23 active)
  - 81 Affiliates
- 300,000+/- chapter members worldwide
- 7 Regional Committees



## REASON #2

Things are amiss and we  
haven't adapted  
to deal with them.



## Chapters Were Telling Us About:

- Drops in membership
- Drops in conference attendance
- General difficulty w/volunteer capacity to operate day-to-day
- Decreasing engagement; scarcity of members interested in leadership positions
- Problems with councils losing the tax-exempt status

## We Could Relate...

- Revenue is trending downward
  - Membership
  - Conference registration
  - Publications
- Less interest in leadership
- Governance wasn't structured or prepared to manage the challenges

# ILA

## REASON #3

ILA annually dedicates significant dollars to supporting the network.





## ILA Cost to Manage Network

- Annual Council Revenue = \$5,275
- ILA's Annual Financial Commitment to Councils = \$599,899
- Avg. ILA Spend Per State Council = \$13,634 (2/3 are non-members)
- Lost Annual Revenue to ILA = \$1,439,100

**Total Budget Impact = -\$2,038,999**

**ILA**

**REASON #4**

**LEGAL REASONS AND  
LEGAL RISK**



## The Rules Have Changed

- IRS-increased accountability for all nonprofit group exempt organizations (like ILA) and the chapters under them.\*\*\*
- Increasing # of IRA chapters are struggling and/or failing and ultimately not meeting IRS regulations.
- Failing chapters jeopardize ILA's nonprofit status.

\*\*\* *Thank you Enron, WorldCom, United Way, American Red Cross, (yes, even Wells Fargo) and every corporation charged with/found guilty of fraud or corporate malfeasance.*

## Overall Expected Outcomes

- Consistently structured and aligned network
- Increased ability of chapters to meet state and federal rules and regulations
- Increased potential for successful chapter operation; minimize/eliminate potential for chapter failure and loss of tax exempt status
- Reduced legal and financial risk for ILA

## Options for State Chapters

- ILA Group Exempt Affiliation
- Non-Group Affiliation
- Opt out – No Affiliation (not preferable)

## Affiliation Option #1- Included Under ILA's Group Exemption

- ✓ Incorporate in Delaware
- ✓ Aligned name (i.e., New Jersey Literacy Association; using "literacy")
- ✓ Align fiscal year to ILA's
- ✓ New Bylaws
- ✓ State subscription dues
- ✓ Local chapters –direct relation under state chapters with no separate entity status or EIN

# Group Exempt Affiliation

What it Means	What Changes?	Why?	What's the Impact?
Incorporate in DE	Re-incorporate in DE or establish a new corporation in DE	Creates alignment. DE laws/regs are easy to operate within. Easy for ILA to provide support.	Cost-sharing (ILA & chapter) for filings.
Align Name to ILA	Chapters will change name from 'reading' to 'literacy'.	Logical alignment to ILA.	Chapter must change name to align with ILA. Can possibly keep name (if 'literacy' in it) but will cost extra to carry name/EIN over under ILA. ILA assists w/rebranding, communication.
Updated Bylaws	Bylaws aligned to ILA and up to date w/DE and federal regulations and rules.	ILA can provide accurate support for updating bylaws annually or as laws change; ensures compliance w/regs.	Must modify some (but not all) board rules". ILA provides support/training on operating under new bylaws.
Included in ILA's group exemption	Very little: status w/ILA and IRS is same as it is now.	ILA ensures chapter adherence to state/fed regulations.	ILA's criteria and expectations for membership in the group has increased. Name aligned to ILA, incorporate in DE, etc.
Access to Chapter support and services.	Stays the same as now, plus ILA is expanding services and support.	ILA ensures compliance w/state & fed regs; provides regular updates, and expanded chapter support and services.	Cost-sharing for services previously not paid for, such as board speakers.
New Letter of Agreement(LoA) with ILA	The LoA will outline criteria requirements for maintaining the state's affiliation to ILA.	Clearly states relationship duties, obligations and responsibilities. Provides support from ILA to chapter.	The new LoA will require states to maintain the specified criteria for affiliation and chapters pay an annual subscription fee.

## Affiliation Option #2 – Not Under ILA's Group Exemption -- seek own 501(c)(3)

- ✓ Can separately incorporate anywhere
- ✓ Must obtain and maintain tax-exempt status under Code Section 501(c)(3) with IRS
- ✓ State subscription dues
- ✓ Still ILA-affiliated with lighter reporting requirements to ILA
- ✓ File independent audit
- ✓ Local chapters –direct relation under state chapters with no separate entity status or EIN



# Non-Group Exempt Affiliation

What It Means	What Changes?	Why?	What's the Impact?
Separately incorporate in any state.	Can maintain current incorporation and If not incorporated, must obtain incorporation in state of choice. Chapter no longer falls under ILA's group exemption.	Mitigates risk for ILA. Required to apply for federal (IRS) tax exempt status. Establishes org as corporation at <i>state level only</i> ; tax exempt is gained next-step: application to IRS.	If not incorporated, chapter pays to process incorporation.
Obtain 501(c)(3) status from the IRS	Chapter is nonprofit; no longer falls under ILA group exemption.	Large annual chapters assets. Ability and capacity to operate under IRS rules. Increases chapter independence re: governance and operation from ILA. Provides chapter w/own NFP status.	Increased chapter responsibility to and accountability for operating under IRS and state regs. Chapter pay legal/all fees to process NFP w/IRS. Mitigates risk for ILA.
Sign a new Letter of Agreement (LoA) with ILA	The LoA will outline criteria requirements for maintaining the state's affiliation to ILA.	Clearly states relationship duties, obligations and responsibilities. Provides for support from ILA to chapter.	Annual subscription fee.
Adopt updated Bylaws	Depends upon state of incorporation; state's attorney will guide bylaw development	Ensures alignment of bylaws to current state and federal rules and regulations.	Highly limited ability for ILA to provide on-going support for bylaws. Possibly new operating rules for board.
Access to Chapter support service	Stays the same as now, with exception that ILA is highly limited in providing advice on bylaws.	Chapters will continue to have access to ILA chapter support and services, and have the option to purchase enhanced services.	Not much, but now that the chapter is its own NFP, there are limitations to ILA providing technical support. Also, some cost-sharing for services previously not paid for such as board speakers.

## What is this going to cost?

<b>US Chapter Revenue Range</b>	<b>Group Affiliation</b>	<b>Non-Group Affiliation</b>
<\$100,000	\$3,000	\$2,000
\$100,000-\$224,999	\$5,000	\$4,000
≥\$225,000	\$7,500	\$6,000

## Membership Incentives

- By increasing ILA membership annually, Chapters can receive a reduction in the subscription fee.

\*\*\*More details to come

## Enhanced packages

- ILA has developed a set of comprehensive packages that offer a wide variety of services.

Please see affiliation documents for more information



## Option #3 – No affiliation

- Separation from ILA
- Negotiate assets and name
- No ILA resource allocation or support
- ILA notification to members in the state of the state Board's decision to dissolve affiliation.

# Opt Out- No Affiliation

What it Means	What Changes?	Why?	What's the Impact?
No longer affiliated with IRA or ILA.	At minimum, must get new EIN; NFP. No access to ILA support, services or benefits. No access to ILA Board or staff for speakers. Not eligible for ILA awards, etc.	Not part of ILA. State has decided not to affiliate.	Must pay for all fees associated with reforming as non-affiliated ILA chapter. No access to support or services from ILA. Must negotiate with ILA to preserve name and/or assets.
No use of ILA or IRA logo, access to communications, or reference to affiliation.	Must remove all mention of affiliation and remove all reference to or logos of IRA and ILA.	No affiliation	Groups will no longer be able to identify as an affiliate of ILA/formerly IRA.
ILA will notify all ILA members within the state that this group is no longer affiliated with ILA		ILA members need to be aware that the state organization is no longer affiliated with ILA.	May result in loss of members. May result in start up of new ILA-affiliated chapter. No state access to ILA member lists.
No ILA chapter services, support or benefits		No affiliation	No HQ support for 990's, issues, bylaws; no ILA Board speakers; not eligible for awards, etc.

## Implementation Timeline

- Communication to all current entities beginning- July, 2016
- Letter of intent from current councils due to ILA -March 2017
- Chapter Transition Committee begins work with ILA staff -April/May 2017
- Completion of chapter transition- September 2018

# Guiding Questions ... Option #1 or Option #2 ?

- What level of governance do you currently operate under?
- What is the level and amount of assets/revenue your chapter holds?