



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

RQ-2

NOV 5 1997

Jim Pledger, Treasurer
Democratic Party of Arkansas -
Federal Account
1300 West Capitol
Little Rock, AR 72201

Identification Number: C00024372

Reference: Mid-Year Report (1/1/97-6/30/97)

Dear Mr. Pledger:

This letter is prompted by the Commission's preliminary review of the report(s) referenced above. The review raised questions concerning certain information contained in the report(s). An itemization follows:

-The outstanding balance of a debt owed to a creditor at the close of one report should be exactly the same as the outstanding balance beginning the period of the next report. This report shows a beginning outstanding balance(s) to Boatman's Bank, which is not identical to the ending outstanding balance(s) for the creditor(s) on the 1996 Year End Report. Please amend your report to clarify the discrepancy.

-You must make an attempt to obtain the full name, mailing address, occupation and name of employer for all individuals who contribute more than \$200 in a calendar year. Please amend your report to include the omitted information.

A committee may demonstrate "best efforts" to obtain the required information by providing the Commission with a description of its procedures for requesting the information and may also supply a copy of a

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solicitation: the committee must request the contributor information in initial solicitations; make follow-up requests (if necessary); report the information; and file amendments to disclose previously unreported information. Each solicitation must include a clear and conspicuous request for the information. If a committee receives a contribution that exceeds the \$200 threshold but lacks contributor information, the committee must, within 30 days, make an additional written or oral request for the information. Please note that a written request may not include an additional solicitation or material on any other subject, other than thanking the contributor for the donation and must include a pre-addressed return post card or envelope for the contributor's response. An oral request must be documented in writing. Committees must also disclose information that was not provided by the contributor, but is available in any of the committee's records for that current election cycle. Furthermore, if a committee receives contributor information after the contributions have been reported, it must submit, with its next report, an amended memo Schedule A listing all the contributions for which additional information was received or file, on or before the next reporting date, amendments to the previous reports on which the contributions were originally disclosed. See 11 CFR §104.3(a)(4)(i) and 11 CFR §104.7.

-Schedule H2 of your report indicates that your committee participated in Direct Candidate Support, Exempt and Fundraising activities or events during the reporting period. However, there are no corresponding disbursements reflected on your Schedule H4. If any disbursements were incorrectly reported, you should file an amended Schedule H4 with the correct unique identifying code or title.

Note that you need not include activities on Schedule H2 if there are no corresponding payments made for the activity during the reporting period.

-Your report discloses in-kind contributions ("donations") from corporations on Schedule H4, supporting Line 21(a) of the Detailed Summary Page (pertinent portions attached). Pursuant to Advisory Opinion

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1992-33, the Commission concluded that a "national party committee may accept corporate in-kind donations in connection with fundraising activities" as long as "the federal share of goods or services is paid or transferred to the non-federal account in advance" of the acceptance of the corporate in-kind donations by the federal account.

Advisory Opinion 1992-33 also discloses a detailed method for reporting the receipt and use of in-kind contributions as follows:

1. The transfer of the in-kind corporate contribution from the non-federal account to the federal account should be disclosed on Schedule H3. The itemization on Schedule H3 should include the date the Committee received the in-kind contribution, the amount of the contribution and the fundraising event involved.
2. The use or expenditure of in-kind corporate contributions should be disclosed on Schedule H4 as non-federal share disbursements. The itemization should provide the same donor identification information required on a Schedule A for in-kind contributions for Federal elections.
3. A second entry on Schedule H4 should then disclose the advance or contemporaneous payment of the federal account's share of the in-kind corporate contribution to the non-federal account.

Please amend your report to properly disclose the in-kind corporate contributions received by your committee (example enclosed).

-Please clarify all expenditures made for Gore Expenses on Schedule H4. If a portion or all of these expenditures were made on behalf of specifically identified federal candidates, this amount should be disclosed on Schedule B or F supporting Line 23 or 25 and include the amount, name, address and office sought by each candidate. 11 CFR §§104.3(b) and 106.1

-Schedule H4 of your report (pertinent portion(s) attached) discloses a payment to the Democratic National Committee. Please be advised that

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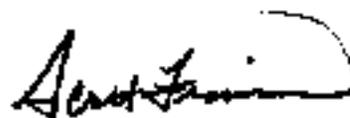
transfers to federal and non-federal committees do not qualify as shared expenses to be allocated between your federal and non-federal accounts. Transfers to affiliated committees should be disclosed on a Schedule B for Line 22 of the Detailed Summary Page. Any reimbursement from your committee's non-federal account for any portion of this transfer(s) is not permissible. 11 CFR §102.5(a)(1)(i)

The Commission recommends that you immediately transfer the funds received by your federal account, as reimbursement for the non-federal portion, back to your non-federal account. Although the Commission may take further legal action concerning this prohibited activity, your prompt action will be taken into consideration.

-On Schedule H4, you have checked the Administrative box for a disbursement made to the Excelsior Hotel for a fundraising dinner. This disbursement appears to be a disbursement for a fundraiser. If a portion or all of these expenditures were made on behalf of a specifically identified federal candidates, this amount should be disclosed on a Schedule B supporting Line 23 and include the amount, name, address and office sought by each candidate. 11 CFR §104.3(b) Please amend your report by checking the correct category box on Schedule H4.

A written response or an amendment to your original report(s) correcting the above problem(s) should be filed with the Federal Election Commission within fifteen (15) days of the date of this letter. If you need assistance, please feel free to contact me on our toll-free number, (800) 424-9530. My local number is (202) 219-3580.

Sincerely,



Scott Francis
Reports Analyst
Reports Analysis Division

DISBURSEMENT SCHEDULE H4

JOINT FEDERAL/NON-FEDERAL

(effective 1/1/91)

ACTIVITY SCHEDULE

PAGE 42	OF 57
FOR LINE 21a	

NAME OF COMMITTEE
Democratic Party of Arkansas-Federal Account

DPA Petty Cash	office exp (Chk# 6585)	05/05/97	200.00	44.00	156.00
1900 West Capitol Little Rock AR 72201					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 194107.68					
Democratic National Committee	core expenses (Chk# 6598)	05/08/97	15000.00	2300.00	11700.00
430 South Capitol, 8B Washington DC 20003-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 209107.68					
Fidelity Leasing Inc	copier lease (Chk# 6630)	05/09/97	848.82	186.74	662.08
P.O. Box 8500-1805 Philadelphia PA 19178-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 209956.60					
Senior Democrats	tickets (Chk# 6631)	05/08/97	180.00	39.40	140.60
1900 W. Capitol Little Rock AR 72201-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 210136.50					
Avery Garner	temp help (Chk# 6632)	08/12/97	375.00	62.50	292.50
819 Hazel St. Bradford AR 72020-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 210511.50					
Southwestern Bell Yellow Pages	advertising (Chk# 6633)	05/12/97	50.12	11.03	39.09
10810 Executive Center Little Rock AR 72211-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 210561.62					
Photo Shop	copies (Chk# 6634)	05/12/97	10.67	6.11	4.56
8122 Cantrell Road Little Rock AR 72207-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 210580.29					
WFDW Convention '97	convention registration (Chk# 6637)	05/12/97	175.00	38.50	136.50
120 Wiley Rd Vicksburg MS 39180-					
CATEGORY: X Administration					
EVENT YEAR-TO-DATE: \$ 210725.29					
SUBTOTAL OF JOINT FEDERAL AND NON-FEDERAL ACTIVITY THIS PAGE...			14847.61	3705.48	11142.13
TOTAL THIS PERIOD (LAST PAGE FOR EACH LINE ONLY).....					
TOTAL THIS PERIOD FOR THE NON-FEDERAL SHARE					

97-03-230-23129

11. Prohibited In-Kind Donations for Allocable Activities

While contributions from corporations, labor organizations and federal government contractors are prohibited under federal law, they are permissible under some state laws. If that is the case, such donations may be accepted by a nonfederal account for strictly nonfederal activity. However, the situation is more complicated when donations of goods or services from such sources are made in connection with allocable activity, such as a fundraiser at which both federal and nonfederal funds are collected.

In AO 1992-33, the Commission explained how a committee can legally accept an in-kind donation from a prohibited source in connection with an allocable administrative or fundraising activity. Note that the Commission has not addressed the receipt of in-kind donations from prohibited sources for the other types of allocable expenses (i.e., generic voter drives and candidate support activity).

Advance Payment of Federal Share

To avoid the receipt of a prohibited contribution by the federal account, that account must pay the nonfederal account for the federal share of the in-kind donation. This payment—a transfer to the nonfederal account—must be made in advance or on the date the goods or services are received.

Per-Transaction Transfers

The federal transfer may be made on a per-transaction basis—that is, shortly before or on the same day the in-kind donation is received.

Escrow Transfers

Alternatively, the federal account may make bulk transfers to cover the federal share of anticipated in-kind donations. Under this "escrow" arrangement, a committee makes a good faith estimate of the amount of in-kind donations that it expects to receive and transfers sufficient funds from the federal account to cover the federal share.

Adjustments

Should the federal account pay more than its share of an in-kind donation, adjustment transfers from the nonfederal account are permissible.

Basic Reporting of In-Kind Donations: Example

On October 1, a state party committee receives a \$5,000 in-kind donation of flowers from a corporation for a federal/nonfederal fundraiser ("Chairman's Gala"). The estimated allocation ratio for the fundraiser is 50 percent federal and 50 percent nonfederal. That same day, the federal account transfers its share of the in-kind donation (\$2,500) to the nonfederal account.

Required Forms

- Schedule H3—Transfers from Nonfederal Account
- Schedule H4—Payments for Allocable Expenses

Schedule H3—Receipt of In-Kind Donation

The committee reports the receipt of the in-kind donation as a transfer from the nonfederal account for the "Chairman's Gala" fundraiser. The date used here is the date the committee received the flowers.

RECEIPT OF IN-KIND DONATION (H3)

NAME OF ACCOUNT		DATE OF RECEIPT		TOTAL AMOUNT RECEIVED	
Nonfederal Account		10/1/96			\$5,000.00
4	Year Received/Year Date	BY SOURCE OF TRANSFER RECEIVED			
		NON-VOTER DRIVE INQUIRY	DIRECT FUND-RISING ACCOUNT	EXEMPT ACTIVITY/EXEMPT CANDIDATE SUPPORT	
4	Chairman's Gala		\$5,000.00		

The Schedule H3 shows the nonfederal account's receipt of the \$5,000 in-kind donation of flowers on October 1.

"Disbursement" of in-Kind Donation (H4)

Like in-kind contributions, in-kind donations must be reported as both receipts and disbursements so as not to inflate the cash-on-hand balance. (The disbursement side reflects the use or "expenditure" of the resources.) Schedule H4 is used for the disbursement entry, which shows the \$5,000 in-kind donation as a 100 percent nonfederal disbursement. The donor's name and address is disclosed in the box generally used for payees.

Transfer from Federal Account (H4)
The second entry on Schedule H4 shows the contemporaneous transfer of \$2,500 (the federal share of the donation) from the federal account to the nonfederal account. The explanation of the transfer is described in the "Purpose" box, with a reference to the previous entry.

Alternative Reporting Method

To minimize entries and avoid duplication, a committee may use alternative methods to report transactions relating to in-kind donations.

The committee may use one entry on Schedule H3 to show the receipt of all in-kind donations made within the same reporting period for a particular fundraising program or event (or administrative activity).

The committee may also use one entry on Schedule H4 to show total federal payments (transfers) made on the same day for the federal share of in-kind donations.

Example

A committee receives two in-kind donations from prohibited sources for a mixed federal/nonfederal fundraising event, "July Fundraiser":

- Invitations donated by XYZ Printers, Inc. (value: \$3,000) received on July 1; and
- Balloons donated by ABC Balloons, Inc. (value: \$1,000) received on July 15.

The fundraising ratio for "July Fundraiser" is 50 percent federal, 50 percent nonfederal. The federal account transfers its \$2,000 share of the two donations on July 1.

DISBURSEMENT OF IN-KIND DONATION; FEDERAL TRANSFER (H4)

DISBURSEMENT SCHEDULE H4 (Article 1019)		JOINT FEDERAL/NON-FEDERAL ACTIVITY SCHEDULE		PAGE 1 OF 1	
NAME OF COMMITTEE State Party Committee				FOR LINE #4	
1. ALL NAME, MAILING ADDRESS & ZIP CODE Flowers by Vader, Inc. 300 Main Highway City, State ZIP	2. PURPOSE flowers for Chairman's Gala	3. DATE 10/1/98	4. TOTAL AMOUNT \$5,000.00 In-Kind	5. FEDERAL SHARE 0	6. NON-FEDERAL SHARE \$5,000.00
7. CREDIT: ADMINISTRATIVE/OTHER DATE FEDERAL ACCOUNT: 10/1/98		8. FEDERAL CREDIT \$2,500.00			
9. ALL NAME, MAILING ADDRESS & ZIP CODE State Party Committee/ Nonfederal Account 445 Democracy Blvd. City, State ZIP	10. PURPOSE transfer of federal share (see above)	11. DATE 10/2/98	12. TOTAL AMOUNT \$2,500.00	13. FEDERAL SHARE \$2,500.00	14. NON-FEDERAL SHARE 0

The first entry shows the "disbursement" of the \$5,000 in-kind donation by the nonfederal account. The second entry shows the federal account's transfer of its share of the donation (50 percent or \$2,500) to the nonfederal account.

Schedule H3—Receipt of In-Kind Donations

The committee uses one entry on Schedule H3 to show the total in-kind donations for "July Fundraiser" received during the reporting period. The "date of receipt" shows the period during which the committee received the contributions. The "July Fundraiser" entry cross references the Schedule H4 entries showing the "disbursement" of the donations and the identity of the contributors.

RECEIPT OF IN-KIND DONATIONS (H3)

NAME OF ACCOUNT Nonfederal Account		DATE OF RECEIPT 7/1-7/15/98		TOTAL AMOUNT \$ 4,000.00	
		DISBURSEMENT OF THIS RECEIPT			
		ADMIN/OTHER DATE AMOUNT	SPECIAL FUND- RAISING AMOUNT	EDM/ACTIVITY/SPEECH CARRIAGE SUPPORT	
1	New Arrangements Under One				
2	Deal Fundraising Site (Share-Interest for Jack)				
3	JULY FUNDRAISER		\$4,000.00		
4	See H.S. P. T. 2010/98 & 2011/98				
5					
6					

The \$4,000 in-kind transfer represents a \$3,000 donation received on July 1 and a \$1,000 donation received on July 15. The entry notes the Schedule H4 entries where information on the donations is available.

Schedule H4—"Disbursement" of Donations; Federal Transfer
 Schedule H4 shows the "disbursement" of the two in-kind donations by the nonfederal account, each entry identifying the donor and the dates the donations were received.

The third entry shows the federal account's payment for its 50 percent share of the two donations and the date of the transfer to the nonfederal account. The entry refers to the previous two entries to show the transfer relates to those transactions.

"Escrow" Transfer

Advance transfers from the federal account to the nonfederal account to pay the federal share of anticipated in-kind donations are reported on Schedule H3. If known, the particular activity (fundraising program/event or administrative) to which the transfer applies should be noted. If the corresponding in-kind donations are received in a later reporting period, it is understood that the Schedule H3 entry will not be able to list the related Schedule H4 donor entries (showing the nonfederal "disbursement" of the donations).

DISBURSEMENT OF IN-KIND DONATIONS; FEDERAL TRANSFER (H4)

DISBURSEMENT SCHEDULE H4 (page 1 of 1)		JOINT FEDERAL/NON-FEDERAL ACTIVITY SCHEDULE		PAGE 1 OF 1	
FOR LINE 24					
NAME OF COMMITTEE State Party Committee					
A. FULL NAME, MAILING ADDRESS & ZIP CODE	PURPOSE/TYPE OF CONTRIBUTION	DATE	TOTAL AMOUNT	FEDERAL SHARE	NON-FEDERAL SHARE
XYZ Printing Incorporated 8180 Pine Street City, State ZIP	Invitations for July Fundraiser	7/1/98	\$5,000.00 in-kind	0	\$5,000.00
COLLECT: <input checked="" type="checkbox"/> ADMINISTRATIVE/OTHER DUES <input type="checkbox"/> FUNDRAISING DEBIT CREDIT \$12,000.00 DEBIT CREDIT					
B. FULL NAME, MAILING ADDRESS & ZIP CODE	PURPOSE/TYPE OF CONTRIBUTION	DATE	TOTAL AMOUNT	FEDERAL SHARE	NON-FEDERAL SHARE
Balloons Inc. 287 Oak Street City, State ZIP	Balloons for July Fundraiser	7/18/98	\$1,000.00 in-kind	0	\$1,000.00
COLLECT: <input type="checkbox"/> ADMINISTRATIVE/OTHER DUES <input checked="" type="checkbox"/> FUNDRAISING DEBIT CREDIT \$18,000.00 DEBIT CREDIT					
C. FULL NAME, MAILING ADDRESS & ZIP CODE	PURPOSE/TYPE OF CONTRIBUTION	DATE	TOTAL AMOUNT	FEDERAL SHARE	NON-FEDERAL SHARE
State Party Committee/ Nonfederal Account 445 Temporary Blvd. City, State ZIP	Transfer of federal share (see A and B above)	7/1/98	\$8,000.00	\$8,000.00	0
COLLECT: <input type="checkbox"/> ADMINISTRATIVE/OTHER DUES <input type="checkbox"/> FUNDRAISING DEBIT CREDIT \$ DEBIT CREDIT					

The first two entries on this schedule provide information on the in-kind donations received and "disbursed" by the nonfederal account. The third entry shows that the federal account's 50 percent share of the donations was transferred to the nonfederal account on July 1. The entry cross references the related entries.

