

Sustainable Philanthropy

Advising and Representing *Exempt Organizations* and *Donors*

IRC §501[c](3) Organization Formation and Maintenance Initial Setup Protocol

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Sustainable Philanthropy – Organizational Protocol (Client Edition)

Sustainable Philanthropy emphasizes practices, attitudes, and collaborations that foster equitable, resilient, stable, scalable, and compliant Donor, Exempt Organization, and Stakeholder interactions and give birth to perpetual giving, perpetual operations, and perpetual benefits.

How to use this protocol:

We {Steven Roy Management (SJRM) and Cambyses Financial Advisors LLC (CFA's) (Collectively, We or Our} designed this protocol to assist clients when they form an *Exempt Organization*.

We designed the protocol to support clients we are assisting. However, with minimal exception, *Exempt Organizations* can define their own needs and path.

We designed the protocol for Our internal use. We assume users have general or specific knowledge of:

- *Exempt Organization* management, accounting, and finance
- *Exempt Organization* structure and purposes
- The minimum requirements for exemption under IRC §§501 and 509, and

For a refresher on any of these topics see our Sustainable Philanthropy treatise. Organization advisers and our fellow professionals should also review the <<*Technical and Procedural Notes*>> for that text.

Most Organizations should not proceed beyond this assessment or attempt to implement the Protocol without qualified professional assistance. Steven Roy Management and Cambyses Financial Advisors LLC are happy to provide that assistance or refer you to other qualified consultants. Contact Steven at [818] 489-4228 or by Email at steven@cambysesadvisors.com

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Apropos that last paragraph: Tell us what you do well - especially if it is a service we do not offer. We generate a "steady trickle" of referrals for other professional services and would be happy to add you to our referral list after we have vetted you and gotten to know you. Contact us by email or phone to start the relationship.

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Steven Roy Management – Cambyses Capital Exempt Organization Entity Formation – Standard Operating Sequence		
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(File Location = SJRManagement\ClientData\ClientName/YYYYFormation&OrganizationDocs)	Forming an IRC §501(c)(3) Exempt Organization	
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Step Description	Initials	Note #'s
<i>Before You Begin -- Thoughts About Entities</i>		
<i>Exempt Organizations Are Forever:</i>		
<p>The vast majority of <i>Exempt Organizations</i> are corporations.</p> <p>Corporations, enjoy perpetual existence.</p> <p>Long after the original incorporators are gone – the corporation lives on. The corporation’s obligations also live on until it is formally dissolved (under the laws of your state). The IRS, one or several state agencies, and a host of interested public constituencies expect the organization’s representatives to file information or information returns and to practice “stewardship” over the organization until the entity dissolves. <u>Are you committed to doing this?</u></p> <p><i>There is another side to this:</i></p> <p><i>Exempt Organizations</i> are not well suited for one-off, “use-it-and-lose-it,” projects. If you can achieve your aims quickly (say, within a year), do you want to go through the paperchase of forming and running an Exempt Organization? <u>Consider whether your project can be sponsored by an already existing exempt organization.</u></p>		
<i>Exempt Organizations must Comply with an Amazing Number of Rules:</i>		
<p>Besides the need, at a bare minimum, to keep business records and file information returns (e.g., Federal Forms 990, 990T, 941, 1096, w3 and their state counterparts –) <i>Exempt Organizations</i> must document <i>Board of Directors’</i> meetings and decisions, solicitation practices, service delivery, donor identities, and the evolution of their exempt purposes. <u>Do you have the expertise and patience to do this? – Do your accountant and attorney have the expertise to advise you regarding this?</u></p> <p>-</p>		
<i>Ideation and Conception</i>		
<i>Identify your passion</i> – articulate it – talk it up - see if anyone else shares it. Persuade them to join you for the ride!		
<i>Decide what you want to accomplish and identify a public constituency you serve.</i> Focus on the benefits you provide to the public through your new <i>Exempt Organization</i> .		

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Decide, as much as is possible beforehand: <i>Who are your public beneficiaries and constituency?</i>		
Decide, as much as is possible beforehand, <i>How will you deliver benefits to your public constituency?</i>		
<p><i>Do a Grok Session or an “And Then We Could...” with people who support your idea...</i></p> <p>Explore the possibilities that your decisions afford you.</p> <p>From Wikipedia: Grok /'grɒk/ is a neologism coined by American writer Robert A. Heinlein for his 1961 science fiction novel <i>Stranger in a Strange Land</i>. While the Oxford English Dictionary summarizes the meaning of grok as "to understand intuitively or by empathy, to establish rapport with" and "to empathize or communicate sympathetically (with); also, to experience enjoyment", Heinlein's concept is more nuanced. As critic Istvan Csicsery-Ronay Jr. observed, "the book's major theme can be seen as an extended definition of the term."</p> <p>“And Then We Could...” is a facilitated ideation “game” that explores the wildest reaches of your business potential. The rules are simple:</p> <ol style="list-style-type: none"> 1) Start with a statement about your activity or project: e.g. “We will deliver meals to the poor.” 2) Participant responses to that statement must <ol style="list-style-type: none"> a. begin with the phrase: “And then we could...” (or something similar), b. expand on the immediately preceding statement: e.g. “And when we deliver the meals, we can do a wellness check.” “And then we could offer free medical assistance for the conditions we find...” etc. 3) No one may censor or evaluate ideas expressed during the session. No “Oh, that won’t work” or “Gee that sounds expensive, illegal, dopey, complicated, etc....” or “Where will we find <some resource> to do that?” and absolutely no “Oh, we tried that before, and...” is permitted. 4) These conversations move quickly, often in unexpected directions. Someone must be the designated note taker. The designated note taker has no other duties and does not participate in the conversation. (We find that tape recorders make participants clam up.) <p>Evaluation is not part of the session. Evaluation follows the session.</p>		

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<p>“Possibility” is the guiding spirit of “And then we could!” Build it into your follow-up evaluation process.</p> <p>Ask:</p> <ul style="list-style-type: none"> • “How would we do this?” • “What would it take for us to do this?” <p>Avoid, “Do we have the resources etc. to do this?”</p> <p>If an idea still sounds good after asking the positive questions, figure out how to get the resources.</p>		
<p><i>Consult with professionals (Attorney, tax representative, and business professionals)</i></p> <p>For all but the simplest Exempt Organization, both your attorney and tax/business advisors need experience and exposure to Exempt Organization environments.</p> <p>Do not use the attorney who handled Uncle Dave’s DUI. Exempt incorporation is a complex legal, financial, and tax arena. There are “correct answers” to most of the questions you will encounter – you must know the right answer and answer the questions correctly.</p> <p>Tell your professionals your wildest dreams and your reasonable expectations – let them point out the issues you confront.</p>		
<p><i>Create an informal (or formal) business plan or business brief and a supporting slide show deck.</i> Go ahead, put your Business 101 professor in their happy space.</p> <p>This might even be useful -- if you approach it with the right attitude. (See <<The Bear’s Business Plan Pet Peeves>> on our Website)</p>		
<p>If you decide to go forward, <i>consider whether your business plan and concept aligns with your passion and vision...</i></p> <ul style="list-style-type: none"> • If so, Go for It. • If not, maybe this is not something you should commit to right now. Revisit the idea every once in a while, to see how you or the business concept has evolved. 		
<p>Once you have gotten this far: <i>Choose a name for your organization.</i></p> <p>There are several hurdles to adopting a name:</p> <ul style="list-style-type: none"> • <i>Is your company name legally available in your state?</i> 		

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<p>In most states, there can be only one “Finkleberger Foundation.” If somebody else already uses that name, you are probably out of luck,</p> <ul style="list-style-type: none"> • <i>Is your URL and social media identity available?</i> • <i>Are your name and identifiers trademarked, copyrighted, patented, or otherwise in use somewhere-anywhere?</i> <p>There are remedies for each of these name conflicts. Those remedies are time-consuming and (possibly) expensive. There is nothing quite so frustrating as finding out that there are fifty-five “Finkleberger Foundations,” that they own all the good URLs, and have a nasty habit of suing people who infringe their trademarks.</p> <p>Most states have a database that tells you if a specific name, or another unacceptably similar name, is already in use. In CA, use the Secretary of State’s Business Search Tool to identify potential name conflicts. If your desired name is available, file a Name Reservation.</p> <p><i>To determine whether your intended URL is available, type it in your browser’s address bar and see where that takes you. You can also research it on Whatsapp or other Domain Name Registries. If your preferred URL is available, buy the URL through a name registration service. URL’s and online identity are often more difficult-problematic to research and establish than the Exempt Organization’s legal name.</i></p> <p><i>Another of our unsolicited suggestions (born out of hard experience): Try variations and misspellings of the URL as well (Finkelburger, Finklyberger, etc.). It is, at the very least, embarrassing when potential donors land on a kiddie porn site while doing due diligence on your human trafficking focused Exempt Organization (O Tempora, O Mores?).</i></p> <p><u><i>Do not DIY (Do-it-Yourself) your trademark, patent, or copyright search.</i></u> There is too much at stake, and too many things most of us do not know about the process. A professional trademark search usually costs between \$1,000 and \$4,000, depending on the search scope.</p> <p>In case you are wondering: Our follow-up research did not identify any legal name, URL, or trademark conflicts for “Finkleberger Foundation” or any variant of the name. Adopt that name if you feel inclined.</p>		
<i>Commit to your endeavor write a Mission and Purpose statement that encompasses your passion.</i>		
<i>Use your “passion centered” version of the Mission and Purpose statement to recruit</i>		

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<p><i>initial Board Members and supporters.</i></p> <p>Keep in mind:</p> <ul style="list-style-type: none"> • <i>Neither You nor your Board “owns” the Exempt Organization in any meaningful sense. You are entrusted with it on behalf of the public. You may do all the work, but IT’S NOT YOUR EXEMPT ORGANIZATION – you are the public’s fiduciary.</i> • <i>IRS and state charity regulators insist that you demonstrate public support for your endeavor. Recruit three, five, or more diverse board members to reflect public support (odd numbers are best). Look outside your field of interests and your immediate circle of friends.</i> • <i>At least a simple majority of your initial Board (and any Board you constitute later) must be “Disinterested Persons.” Definition: “Disinterested” = “Receives no compensation, either directly or indirectly, for their services to the corporation.”</i> • <i>Attorneys and Accountants are often excellent “Disinterested Persons” and are useful additions to your Board. (If your organization needs attest-audit services, do not recruit anyone from the audit firm to your Board. Think about “Conflicts of Interest” as you recruit.)</i> <p>It sounds cynical, but: <i>Board members should either be Donors or be willing and able to twist other people’s arms to obtain donations. If a Board candidate does not bring skills, ideas, property, money, or access to money to the party, they should not be on your Board. A warm body and a detectible pulse are not sufficient (though they are absolutely necessary).</i></p>		
<i>Mission and Purpose Statement for your Exemption Application.</i>		
<p><i>Create a second Mission and Purpose Statement to support your Organization’s Application for Exemption.</i></p> <p>The Exemption Application’s Mission and Purpose statement differs from the mission, purpose, and means statement you composed during ideation (and that you use to inspire and benchmark your organization’s performance).</p> <ul style="list-style-type: none"> • <i>The Statement you created during Ideation emphasizes your passion and commitment to a cause.</i> • <i>The Exemption Application’s Statement emphasizes your organization’s <u>exempt purpose</u> and underscores the alignment between the organization’s purposes and Internal Revenue Code’s requirements. It is usually “stodgier” than the ideation statement and uses IRS buzzwords and key-phrases to assure that the Service understands the alignment.</i> 		

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<p>The Exemption Application Mission and Purpose Statement must unequivocally establish that your organization:</p> <ol style="list-style-type: none"> 1. Is a “Corporation, community chest, fund, or foundation.” 2. Is “organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals 3. That no part of the organization’s net earnings “inures to the benefit of any private shareholder or individual” 4. That no substantial part of the organization’s activities is “carrying on propaganda, or otherwise attempting, to influence legislation, and 5. That the organization will not “participate in or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.” <p>Source: Internal Revenue Code §501(c)(3) and 26 CFR §1.501(c)(3)-1. Re: Campaigning and Lobbying restrictions, see our Electioneering and Lobbying by Exempt {IRC §501(c)(3)} Organizations</p> <p><i>You will probably need professional help to create this version of your Mission and Purpose statement... See our remarks about qualified professionals and/or DIY, above.</i></p> <p>The Internal Revenue Code (IRC) lists twenty-eight kinds of exempt organizations. IRC §501(c)(3)’s primary distinction from the other twenty-seven of them? Donors may deduct contributions to IRC §501(c)(3) organizations as “Charitable Contributions” if they <i>Itemize</i>. No other class of exempt organization affords that privilege.</p> <p>For more information about other types of Exempt Organizations, read the Code and Regulations on Cornell University’s Law Website. Cornell, itself, is an IRC §501(c)(3) organization that compiles almost every Federal and state law or regulation in existence. While you visit their database, think about making a deductible <i>Charitable Contribution</i> to support the work they do.</p> <p>See our notes about alternatives to incorporation under “Form Your Exempt Organization’s Entity” below.</p> <p><i>Compose a list of activities your Organization will pursue once granted exemption. Emphasize how these activities relate to and support your organization’s exempt purpose(s).</i></p>		

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<p>To satisfy exemption requirements, your activities must fall within one of the eight specified Exempt Purposes listed in IRC §501(c)(3) and they must benefit an identifiable public constituency. The public constituency you identify must extend beyond the immediate circle of friends, family, and enterprises that have an interest in the organization.</p> <p><i>Describe your program activities, fundraising, awareness campaigns, religious services, product, or publication sales... and specifically identify qui bono (who benefits) from each of them.</i></p> <p>You may need professional assistance with this effort. There are any number of subtle issues buried in this requirement! For information, See Our Technical and Procedural Notes under <<Organization Test>>, <<Operations Test>>, and <<Support Test>></p>		
<p><i>Begin drafting the seemingly innumerable governance and operations documents that will eventually be required.</i></p> <p>There are, at least, a dozen “good to have” documents. To file the Exemption Application, you <u>must</u> have:</p> <ol style="list-style-type: none"> 1. Articles of Incorporation (See next section), 2. Bylaws, 3. A Conflict-of-Interest Policy, 4. A three-year budget (See comments below), and 5. A formal plan to raise money and deliver benefits to your constituency. <p>There is a plethora of other needs: Board Resolutions, policies, state and federal applications, etc. (See “Prepare for and Hold Your First (Initial) Board Meeting,” below). The ones on this compact list, however, require the most forethought and consideration.</p> <p>You will definitely need professional help with this. (Each of the documents has repercussions for as long your organization exists.) It is also wise to “show the flag” and get reactions from potential Board members and supporters.</p> <p><i>Get used to paperwork – Exempt Organizations face a staggering compliance regime.</i></p> <p>Irony: Organizations doing the most, for the most people, using the least resources face bureaucratic formation, governance, and compliance barriers that commercial operations do not face. Unfortunately, the irony of that seems utterly without influence</p>		

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in Congress and the Agencies. The Agencies consider the barriers “the price you pay for exemption.”		
<i>Form your Exempt Organization Entity</i>		
<i>With the assistance of a qualified attorney: Draft Articles of Incorporation:</i>		
<p>Your Organization’s Articles MUST restrict several corporate prerogatives:</p> <ul style="list-style-type: none"> • Private inurement and enrichment. • Several forms of political activity, and • Must specify who receives the organization’s assets if it liquidates. <p><i>This is not a good outlet for your creativity:</i> The IRS and the state you incorporate in have “Model Articles of Incorporation.” Ostensibly, Model Articles are “recommendations.” However, deviations from the “recommended” wording will be scrutinized, questioned, and possibly rejected (CA’s Secretary of State is notoriously inflexible.) So, we recommend you stick as close as possible to published:</p> <ul style="list-style-type: none"> • Federal Sample Articles and/or • State Sample Articles (Based on CA) <p>Side Note Regarding Other Choices of Entity: “Trusts, community chests, LLCs, and unincorporated associations” CAN also be exempt. Good luck getting your state or the IRS to grant exemption to any of these alternative business entities. There are many reasons for the Agency’s skepticism (this is not the place to go into that). Make it easy on yourself – wrap your ambitions in standard issue corporate packaging unless there is a compelling reason to do otherwise. (This is probably why over 90% of all Exempt Organizations are formed as state law corporations.)</p> <p><i>If you are named as a Trustee for a Charitable Trust created by will, living trust, or other dispository document – seek professional help immediately.</i> IRC Subchapter J is a scary place you do not want to go to all-by-yourself. This admonition goes double if the dispository instrument creates a “split-interest” trust (in which some beneficiaries are charities, and some are not), or grantor has “retained interests.”</p>		
<i>File your articles, pay the incorporation fees, wait for the state’s response.</i>		
<i>Fees vary from state to state. The wait is anywhere from a few days to several weeks</i>		

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<p>depending on where you file. Most states impose extra fees for expedited processing.</p> <p>Corporate Formation is a state function. Usually, it behooves you to incorporate in the state where you transact most of your activities and/or where you and your principal employees live.</p> <p><i>If you do business in multiple states, obtain “Statement(s) of Good Standing” in states other than your state of incorporation. (Doing business in several states affects your tax-information filing obligations! You <u>need</u> a professional who understands multi-jurisdictional issues. Unless you are that professional, do not even think about DIYing multistate compliance.)</i></p> <p><i>“Doing business in multiple states” includes solicitation of Donors in jurisdictions other than your state of incorporation. Almost every state has registration requirements for Exempt Organizations that physically solicit their residents. A number of states have recently taken the position that “Internet Solicitations” of their residents by “Foreign Exempt Organizations” require registration. This is a fast-evolving compliance and legal quagmire... Unless you are following it closely, ask a qualified professional about it. (Knowledge about this topic is probably mandatory for anyone who claims to be a qualified professional – but I do digress.)</i></p>		
<i>Prepare for and hold your Initial Board Meeting:</i>		
<p>You got your Organization’s “Endorsed Articles of Incorporation” back from the state. You are now, officially, incorporated. <i>It is time to hold your first Board Meeting (Your attorney will tell you how to provide notice to your potential Board Members).</i></p> <p><i>We strongly recommend that you engage your potential Board members to</i></p> <ul style="list-style-type: none"> • <i>review drafts of every document, resolution, and policy you need to adopt at the initial Board meeting and</i> • <i>give them time to respond.</i> <p>Unless, of course, you enjoy being trapped in a room full of angry people arguing about whether a comma or a semicolon is the more appropriate punctuation and whether “shall” includes “will,” or vice versa – for hours on end. Get all of that resolved BEFORE you schedule the meeting.</p> <p>Once you have all your commas and semicolons in the agreed upon places,</p> <ul style="list-style-type: none"> • Prepare your agenda and document package. • Send copies to each of your potential Board Members a few days to a week before your meeting, and 		

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<ul style="list-style-type: none"> Bring copies of the package to the meeting (Inevitably, someone neglects to bring theirs – or spills coffee on it.) <p>The package includes [in no particular order, except for the first three items]:</p>		
<p>The package includes [in no particular order, except for the first three items]:</p> <ul style="list-style-type: none"> Waivers of Notice (Your attorney knows what this means and who needs to sign them) Resolution(s) that memorialize the incorporator’s resignation and appoints a new Board of Directors, elects Officers, and appoints an Agent for Service (in states that require one). Only the incorporator(s) vote on this resolution. Once the incorporators appoint a Board, the new board votes on everything that follows. The endorsed Articles of Incorporation and a resolution that accepts them and incorporates (yeah, that is a pun) them in the minute book. If you adopt a corporate seal, adopt it in the resolution and emboss the minutes with it. (Maybe it is obvious but keep the original Endorsed Articles in the minute book and give the Board copies of them.) <p>A number of purveyors sell fancy binders and corporate seals (usually for ~\$100). A notebook or file folder works too. Make sure you know who has custody of whatever minute book you use and make sure it gets updated and retained in perpetuity (not tossed with the rest of the annual corporate records after three or four years).</p> <p>CA corporations are NOT required to have a Corporate Seal – but seals are fun to play with and you can emboss them on nearly anything thin.</p> <ul style="list-style-type: none"> A Resolution that authorizes someone (preferably an officer or appointed representative) to file an on-line Federal ID application. If you plan to issue a payroll any time within your first 12 months of operation: A Resolution that authorizes applications for the Federal Electronic Funds Tax Payment System (EFTPS) and a state payroll ID number (include a preview copy of the state form in the package). <p>In CA, use Employment Development Department Form DE-1.</p> <p>Most states require separate applications for Federal ID, Corporate ID, State</p>		

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<p>Income Tax ID, State Employer ID, and State Sales and Use Tax. Isn't bureaucracy a wonderous thing?</p> <ul style="list-style-type: none"> If you plan to sell “tangible personalty” (stuff) or if your state imposes sales tax on services: A Resolution that authorizes application for a state sales and use tax ID number (and a copy of the form). Sales tax rules, including sales tax exemptions for Exempt Organizations, differ from one state to another. Check with a local consultant regarding your state sales tax obligations. <p>In CA, which does not provide a waiver for <i>Exempt Organizations</i>, Obtain a seller's permit at CDTFA</p> <p>If you sell over the internet, you may now be required to collect sales tax in the states you sell into. The rules for this, stemming from the Supreme Court decision in Wayfair vs. South Dakota, are still unsettled. Talk to a professional!</p> <ul style="list-style-type: none"> A Resolution that authorizes filing your initial Statement of Information identifying Board Members, Officers, and Service Agents, and a copy of the pre-agreed form. <p>Calendar your future filing requirements. You will not remember when they are due. Neither will your advisors. The state will, however, and will not hesitate to fine you or revoke your corporate charter over the issue. Apropos that: CA sends no notice when this form is due. The first time you will hear it is delinquent is when you receive a bill for \$400 for failure to file. The timely filing fee is \$25.</p> <p>In CA, Form SI-100 (due within 90 days, and a slightly different form every two years thereafter).</p> <p>Technically, SI-100 (or your state's equivalent) is in your attorney's bailiwick, but you can DIY it if you can remember your name, your address, phone number, and the names-addresses of the people you recruit for your initial Board of Directors. Immediately after you incorporate, you will be inundated with junk mail (electronic and snail mail) graciously offering to do this “critical and complicated function” for you – for a fee anywhere between \$200 and \$500. Toss or delete those messages!</p>		

Sustainable Philanthropy – Organizational Protocol (Client Edition)

Steven Roy Management – Cambyes Capital Exempt Organization Entity Formation – Standard Operating Sequence		
Client Name and (File Location) <small>(File Location = SJRManagement%ClientData//ClientName/YYYYFormation&OrganizationDocs)</small>	Topic Forming an IRC §501(c)(3) Exempt Organization	
Standard Operating Sequence – Organizational Engagement – Client Version	Action Items: (Item, Due, and Responsibility)	
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<ul style="list-style-type: none"> • The pre-agreed Draft of your Organization’s Bylaws, and A Resolution adopting them. • The pre-agreed Draft of your Organization’s Conflict of Interest Policy, A Resolution adopting it, and Board Members and Officers pledge to abide by it. • A pre-agreed Draft of your Organization’s three-year budget, and A Resolution adopting it. (A similar budget must be provided when your Organization files its Application for Exemption.) <p>Face it, this budget will be approximate. Make it as realistic as possible, but do not lose sleep over it. The budget includes, in minimum, a pro-forma funding plan that identifies the sources of your organization’s support and a statement of functional expenses.</p> <ul style="list-style-type: none"> • A Resolution(s) that authorizes opening a bank account(s). <p>Many banks prefer that you use their proprietary form for this. Include the names of check signors, and a signature card with the resolution.</p> <p>Lately, US banks insist that signatories appear in person before they are added to the signers list. This has obvious repercussions if your signatory lives in an off-grid cabin in Montana’s backwoods to minimize their carbon footprint. Availability, rather than rank or authority, guides your choice of signatories.</p> <ul style="list-style-type: none"> • A Resolution that adopts a fiscal (or calendar) year and an accounting method for your Organization (talk to your accounting and tax representative) • A Resolution that sets the corporation’s principal office and mailing addresses and ratifies space or equipment rental-lease-purchase agreements. • A Resolution authorizing payroll and benefits for all key employees – especially those who serve on the Board or are corporate officers. In most states only 49% of Board members may receive compensation for services – and Board members cannot be compensated for their Board service. • A Resolution that authorizes someone (preferably an Officer, Board Member or designated Representative) to file Federal and state exemption applications – Federal Form 1023 and its state counterpart. (If you have already drafted one, 		

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<p>include the application in the Minute Book.)</p> <p>Small organizations(those that anticipate revenues and receipts under \$50,000 each of their first three years) can file a “Short Form” exemption application (Form 1023EZ) on-line. Processing time for the EZ form is shorter than for the longer application. This is useful if there is time pressure to commence operations. The short form, however, does not “tell your compelling story” when potential donors look at it for their donor due diligence.</p> <p>Very small (less than \$5,000 annual revenue) organizations, Churches, and Associations of Churches may not have to file an application. Speak with your counsel regarding advisability of that election.</p> <p>In CA file Form 3500 or Form 3500A - which are just different enough from the Federal Form 1023 to be extraordinarily annoying.</p> <p>Form 1023 and its state counterpart are both publicly accessible documents. Do not include e.g., Board home addresses, social security numbers, telephone numbers or emails on the application. Use a proxy (e.g., the Exempt Organization’s address) for this information. There are a lot of nutcases out there – some of whom will not like whatever it is you are doing through your <i>Exempt Organization</i>. Do not make yourself or your board an easy target.</p> <ul style="list-style-type: none"> Any attorney worth their hire probably has about 15 more resolutions, forms, or applications they think are critical and will probably take exception to something on our list. We defer to their judgement on this. <p>After your Board wades through all of this: Adjourn the Board meeting, take the new Board members to dinner or ...</p>		
<i>Prepare and file all the applications your Board just authorized</i>		
<p>A preliminary caution: Almost all of the documents related to applying for and maintaining exemption (including Form 1023, FTB Form 3500, Forms 990, and CA Forms 199) are eventually posted to an agency database – and are available for public inspection. <i>Do not compromise personal identifiable information like social security numbers, phone numbers, and addresses in your documents.</i></p> <p>There are a lot of nutcases out there – some of whom will not like whatever it is you are doing through your Exempt Organization. Do not make yourself or your board an easy target. Further, scum balls are not above lifting personal information from the application and using it for nefarious purposes (ID theft) or even to attack and harm</p>		

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<p>your Board members. Your intentions are (probably) purer than the whack-jobs’ – so do not give them a good clean shot.</p>		
<p><i>If you have done your homework and prepared for your initial Board meeting, actually submitting the applications should be a breeze – as easy as hitting <Send> or finding an envelope big enough to hold the documents.</i></p> <p>Use the Board meeting prep sheet, above, as a checklist for what you need to file. Keep track of the dates you filed them. (We keep a separate worklog where we record this information... The “Note #’s” column to the right cross references this SOP to the worklog. You may want to adopt a similar system.)</p> <p>One more caution: If you submit applications or forms electronically, make sure you make a hard copy (or print to pdf) before you hit <send>. Electronically filed information is often difficult to retrieve after it pixelates.</p>		
<p><i>Do not Forget to Include Your Fee Payment or Waiver!</i></p> <p>This is the number one reason that otherwise complete applications are returned.</p>		
<p><i>The IRS maintains assiduously that they “respond to exemption applications within 90 days.” Do not hold your breath starting on day 89...</i></p> <p>The IRS’s usual “90-day response” is a postcard that says they are diligently working on your application – and have granted themselves another 90 days to complete the process. (The postcard is pre-printed, with your name and address hand-written into it... We think that says all that needs to be said.)</p> <p>Bottom line – expect to receive your Federal exemption notice about six months after you submit the application.</p> <p>The Service also says they answer their phones within six minutes, on average... If you believe that ----- In the post COVID environment, processing times have dilated – despite the introduction of mandatory e-filing for Federal Form 1023.</p> <p>Secondary note: The Service’s e-file mandated form has almost no formatting or cut and paste options. Save some time by eschewing presentation and emphasizing content.</p>		
<p><i>In most states, you may file your state exemption application at the same time you file the federal application.</i></p> <p>If you think the IRS responds slowly... The states (with a few exceptions) are even</p>		

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<p>more dilatory. It reminds us of the old story:</p> <p>A snail crawls into a police station and says, “Officer I was just mugged by a tortoise!”</p> <p>The officer says, “Can you give us a description of the tortoise?”</p> <p>To which the snail replies, “Not really --- It all happened too fast.”</p> <p>Our in-house record for longest state response is a bit over two years; ironically, in a state that has no income tax to begin with!</p>		
<i>Put together a “Board Member Welcome Package”</i>		
<p><i>Good Board Members are educated – not born. It is up to you to let your Board know what you expect of them – and what they can expect from you.</i></p> <p>Sadly, about 1/3 of your Initial Board Members will not stay with you – even for as long as it takes for the Organization to become exempt. We do not know why, that’s just how things work. You will probably want-need to replace them.</p>		
<p>We strongly recommend that you prepare a “Board Member Welcome Package” that includes some fundamental documents:</p> <ul style="list-style-type: none"> • Your Articles, • Your Bylaws, • Your Exemption Letters, • Your “Passion Based” Mission and Purpose statement, • Your Conflict-of-Interest Policy, • Your Ethics and Behavioral Expectations Statement, • Your Directors and Officers Insurance Binder-Cover Page • A list of current Directors, Officers, and their Contact Information • A summary of your current programs (and past successes) • A summary of Board responsibilities (generically and specific to your organization), • A Lobbying and Campaigning Reminder, • Anything else you think is important or useful. <p>Give copies to every Board member or potential Board member (including your Initial Board Members). Give them a fresh copy every year.</p> <p>Do not just email or hand the package to them – talk to them about it. This is a great</p>		

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tool to foster Board engagement and help identify the really committed Board members. (Sneaky plan, huh?)		
<i>Deliver on your Promises, Realize your Passion, and your Vision!</i>		
After all the routine – this is where the rubber meets the road.		
Do whatever it is that you do. Do it with truth, integrity, and enthusiasm.		
There are many rules! We can talk about most of them later.		
Follow-Up Notes & Backburner Items:		