Social & Environmental Entrepreneurs (SEE)

MEMORANDUM OF UNDERSTANDING

A Summary of the Operations Manual

ABOUT SOCIAL & ENVIRONMENTAL ENTREPRENEURS (SEE)

SEE is a fiscal sponsor established in 1994 as a means to encourage creative nonprofit and philanthropic activity, both nationally and internationally. SEE is a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Contributions to a public charity may be accepted from individuals, foundations, organizations and corporations as deductible federal income tax items.

SEE'S MISSION

Nonprofit Projects typically have three major components. By far the most important is the Project work in the field. This is what gives the Project its mission, vision and purpose. The second component is fundraising, which is essential to support activities of the project. Financial work is the third major component. Maintaining a formal office, IRS filings and similar activities that consume time and energy and take away from the field work of the Project.

SEE frees attention for Project work by handling all the responsibilities relating to this third component. Throughout the Project's tenure at SEE, consultation and support are provided for financial duties.

SEE'S RESPONSIBILITIES

SEE provides the following services for its Projects:

- Depositing all donations of the Project and tracking the information in an accounting software package. This ensures tax-deductibility of eligible donations.
- Acknowledgement/thank you letters will be mailed for all donations exceeding $50. This includes in-kind thank you letters for material non-cash donations.
- Disbursement of Project funds when receipts have been submitted.
- All federal and state tax filings (including 990 annual tax returns and 1099 consultant income reporting forms).
- Review of all legal documents, grant requests or other contracts or documentation that affects SEE as the fiscal umbrella or on which SEE is a signer.
- Provide financial updates (profit and loss statements) to the Project upon request.
- Provide letters of support and other pertinent material when a Project is applying for grants and donations.

SEE's first fiscal responsibility is as a public charity to the Internal Revenue Service (IRS), as a result receipts are required for all monies that are disbursed.

It is important to keep in mind that when a Project joins SEE, that Project is responsible for running their own day-to-day operations. SEE will provide the appropriate financial assistance, in regards to donations/payables, including all privileges accorded a tax-exempt organization.

The organization disburses funds net of its fiscal agency fees. In addition, the organization reserves the right to withhold for applicable employment taxes and/or to provide for payment of workers compensation insurance premiums, if it determines to do so, in its sole discretion, in order to satisfy the requirements of applicable federal, state or local laws.

PROJECT'S RESPONSIBILITIES

- Project's activities must be charitable in purpose and contribute to their mission.
- Project's activities must have a need for and the potential to benefit from the services provided by SEE.
- Projects must be willing to work in collaboration with SEE.
- Projects are required to track and submit all receipts and invoices to receive disbursements.
- Projects are required to raise their own funds.
- Financial contribution for operations through fiscal fees.
- Accurate record keeping, including deposits, invoices, budgets and receipts.
- Open communication between the Project and the SEE office. This includes any changes in the address, contact information and status of the project.

FEES

New SEE projects are required to pay a $100 activation fee upon application approval. There are no ongoing fees other than fiscal sponsorship fees, which are calculated at 6.5% of every Project's revenue for normal services. This fee is used to maintain the SEE office overhead such as salaries, equipment, telephone, etc.

SEE does require that each Project pay a minimum of $225 per calendar year in fiscal sponsorship fees. There is no maximum amount, i.e. we do not cap fees at a ceiling amount. Any Project that does not raise at least $3,400 in a full calendar year will need to remit funds to come up to the $225 level. This policy was enacted to ensure that all Projects are active and working toward the goals they have set forth.

Special requests made outside of the basic services will be charged to the Project at the rate of $60/hr in increments of 10 minutes (the minimum charge is $10). This includes any requests that require special trips outside the office.

FUND RAISING

Each Project does his or her own fund raising. To ensure tax deductibility of your contribution, all funds must be submitted to SEE to be deposited. Projects are strictly forbidden from opening bank accounts using SEE's Tax ID number. Please contact the office if clarification on this is needed.

Projects are required to submit their grant proposals to the SEE office for review at least a week prior to soliciting contributions from donors. Once the proposal is approved, SEE can send a letter of support that explains the SEE Project relationship. In addition, grant proposals should not include amounts for non-Project costs.

Each Project takes responsibility for accurate accounting, including budgets, receipts and invoices, which are forwarded to the SEE office for a combined IRS reporting (Tax Form 990) with all the other Projects.

LIABILITY INSURANCE

Individual Projects must provide liability insurance protection for Project activities. This is especially important when conducting activities that will involve members of the public. These activities include such events as conferences and symposiums, training and classes, camps, etc. Transportation of individuals to and from these events should also be covered.

Liability insurance should always be procured prior to producing an event. Insurance costs are a Project expense so it is important to build it into your yearly budget.

COMPENSATION

Project Directors may pay themselves a salary or stipend. This goes for staff, interns, consultants and contractors. However, it is usually not appropriate for the majority of a Project's entire expenses to be directed toward salaries. SEE monitors the paying of salaries to ensure that it is commensurate with the Project work.

Persons receiving compensation for any services will be paid as independent contractors. This means two things:

1. Taxes will not be withheld by SEE but instead paid by the recipient directly to the IRS. Independent contractors who earn over $600 in a calendar year will receive a Form 1099 from SEE, which is issued in January of the following year. A 1099 is an IRS form issued to report income paid to non-employees. Because 1099s must be prepared on behalf of SEE as a whole, all payments to 1099 eligible vendors/individuals must be documented with a Disbursement for Services Forms for individuals. Projects need to obtain for SEE the address and Social Security Number or Employee Identification Number of each individual or vendor respectively.

2. By law, SEE must provide Workers' Compensation Insurance to all employees and independent contractors living in California. Because of this, Projects will be charged an additional 2.57% fee on all payments made to California independent contractors. This amount is subject to change per the State of California.

BUDGETS

SEE requires that you submit a budget so that your financial statements will reflect not only your actual activity, but also your planned activity. In addition to its function as a template upon which a Project bases its activity, budgets are also a mandatory aspect of nonprofits. In the case of an audit by the IRS, SEE needs to show fiscal responsibility and control.

There are several different types of budgets that are used:

Program Budget – Often an organization creates a budget for each program to be initiated. The total of the individual program budgets is the budget for the organization. If an organization has one program, i.e. one specific focus of work, then the program budget will also be the organizational budget.

Grant Budget – All foundations require budgets for the portion of the work that they will be funding. However, as most Projects have multiple sources of revenue, this budget will be a subset of your full organizational budget.

Cash Flow Budget – As an essential planning tool, it tracks your expected inflows and outflows of cash. This type of budget is helpful during a Project's "downtime." For example, periods in between major programs when a Project still has basic office expenses and other financial commitments.

SALES INCOME

If the Project is engaged in selling anything (such as literature, t-shirts, videos, etc), please contact the SEE office to discuss the nature of these sales. It is imperative to separate sales income from donations. The board decided that SEE could not accept sales income.

HOW TO DESCRIBE THE SEE / PROJECT RELATIONSHIP

The Project's identity as an activity of SEE must be explicitly stated on all printed materials, including letterhead, newsletters, brochures, fund raising appeals, press releases and web sites. This information is important to donors in protecting the tax-deductibility of their contributions. Projects do not have a legal identity as a nonprofit organization other than through SEE, although we encourage all Projects to have a viable identity in the community.

The Project may use this sample language or some variant of:

<u>For stationery/brochures/ printed materials and for the website:</u>

> The [Project Name] is a Project of (or in affiliation with) Social and Environmental Entrepreneurs (SEE) a non-profit public charity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.
>
> [Project Name] is a Project of Social and Environmental Entrepreneurs (SEE), a registered public charity, which provides non-profit status. Your donation is fully tax-deductible.

<u>For fundraising appeals:</u>

> ″[Project Name] is a Project of Social and Environmental Entrepreneurs (SEE), a 501(c)(3) non-profit. Please make checks payable to SEE/"*[Project name]*. If you are donating by credit card, please note that Social and Environmental Entrepreneurs, or a variation of SEE, will show up on your credit card statement. Your donation is tax deductible."

If Projects will be collecting donations via credit card, donors need to be made aware that SEE, not the Project name, will show up on their credit card statement.

If the SEE/Project relationship is not stated clearly on all print materials, it may result in the suspension of Project activities.

DEPOSITS / REVENUE

All checks should be made payable to "SEE/Project Name." SEE's name must appear on all checks in order for the donor's contribution to be tax-deductible and they can be deposited into SEE's bank account. Any Project income (cash, checks, money orders, etc.) that is to be deposited must be sent to SEE. This ensures the tax deduction of eligible contributions. We need to know where and from whom the funds originated, be it an individual donation, foundation grant, fundraiser, memberships, sales of merchandise, etc. Projects must attach a brief letter explaining the origin of each fund source.

SIGNING LEASES AND CONTRACTS

If a Project wants to enter into a contract/lease. SEE needs to be informed. However, SEE will not co-sign contracts, etc. An individual with the Project needs to take full responsibility. If we discover that SEE's name has been added to a contract/lease the Project will be subject to removal and the contract, etc. will be voided.

Projects should submit materials to the SEE office, allowing for at least a five working day review period (longer if legal review is necessary). This includes all grant proposals, newsletters, press releases, educational and advocacy materials (including video, web and broadcast media), lobbying materials, fund raising materials, etc. The SEE office has the authority to restrict materials from publication if they contain anything illegal or contrary to 501(c)(3) policies.

CREDIT CARD INCOME

SEE can process credit card income (Visa, MasterCard, Discover, and Diner's Club only). Projects do not need to obtain independent merchant accounts. Projects will be charged any bank fees related to credit card processing (3%) in addition to SEE's fiscal fees. This is subject to change per the bank.

Because the merchant account is in SEE's name, "Social and Environmental Entrepreneurs" (or some variant) will appear on the credit card statement of donors, not the Project name. It is very important that Projects alert their donors who give by credit card that this will happen. Occasionally, credit card donors do not know or remember why "Social and Environmental Entrepreneurs" is the name on their statement, so they contest the charge with their credit card company. The credit card company charges $15 every time this happens, which SEE will pass onto the individual Project whose charge is contested.

The easiest way for donors to give by credit cards can be found through the SEE website www.saveourplanet. There is a link labeled "Donate Now" and on the bottom of that page. The donor can choose the organization they want to give to from the list of Projects. In addition, donors can send SEE the information by email, mail, fax or phone.

Many Projects have donors who give regularly. A Project may choose to give donors the option of pledging, or promising to bestow a certain amount every month or year. We laud efforts to secure regular donors, however, we do not manage credit card pledges for Projects. Instead, Projects have the responsibility of handling credit card pledges and notifying us (via fax, mail or email) when to charge the credit card.

COPYRIGHTS, TRADEMARKS AND INTELLECTUAL PROPERTY

The copyright for any product produced by a SEE sponsored Project, such as books, videos, web sites, names and trademarks, is owned by SEE. Any royalties from such products are revenue to the Project that produced them. These products may be transferred, along with other assets, to any independent 501(c)(3) nonprofit organizations, including the Project itself should it incorporate as a 501(c)(3).

This is a very important issue, and one that all Project directors and key staff should be familiar with. Every Project is a legal entity of SEE. It is only through the tax-exempt affiliation with SEE that Projects are able to fundraise, accept donations, and promise their donors a tax deduction. Because of this arrangement, SEE must assume all legal responsibility for any tangible or intangible products (such as videos, films, books, works of art, research manuscripts, and patents or copyrights covering the aforementioned) temporarily while the Project is affiliated with SEE. This privilege and responsibility transfers to the Project when this affiliation changes, i.e. when the Project spins off as an independent nonprofit entity or transfers to another fiscal sponsor. SEE will not exercise any artistic control over the contents of the materials, although SEE does need to verify that the content conforms to 501(c)(3) regulations.

This is in keeping with nonprofit law, which stipulates that no public funds be used for the private benefit or inurement of an individual or business. If a product is produced or if something is acquired with funds from the public realm, i.e. through the tax-exempt affiliation with SEE, that product or acquisition must be channeled back to the public and not the benefit of an individual or business.

There are means by which the rights and ownership to a product or acquisition can be acquired by an individual or business. Generally, this means a monetary reimbursement to SEE in exchange for said rights and ownership. There are rules governing such transactions. SEE will handle all such requests on a case-by-case basis.

The responsibility for filing a formal application to obtain a copyright or patent lies with the Project. The copyright name must be "SEE/Project Name."

TAX-DEDUCTIBLE CONTRIBUTIONS

Overseas donors need to know that their donations to SEE sponsored Projects may not be tax-deductible in their own countries. Every country has its own income tax laws, so donors from outside the United States will have to find out what laws apply to them.

One item that is particularly important to the Project – and for donors – is recognizing what portion of the contribution is tax-deductible. Although SEE may record the full amount of a donor's check as a contribution, under certain circumstances the whole contribution may not be tax-deductible. In recent years, the IRS has been especially attentive to this issue with regard to nonprofits. This means that if donors are receiving something in return, e.g. food at a dinner they attend, or a t-shirt or some other promotional item, it is the responsibility of the Project director to inform them of the value of the goods or services they received will not be tax deductible.

LAWSUITS

Projects must immediately notify the SEE office if it is planning a lawsuit or if it has been threatened with legal action. As each Project is an integral member of the SEE community, it is imperative that we remain apprised of any pending or potential legal issues.

ACKNOWLEDGEMENT LETTERS FOR CONTRIBUTIONS

Thank You Letters: All tax-exempt organizations are required by IRS rules to send an acknowledgement letter for every contribution of $250 or more. SEE's internal policy is to send a letter for all donations of $50 or more. The letter informs the donors of the amount of the donation and the particular Project that was funded. It thanks them for their support and provides them with the SEE tax ID number (FEIN) that they will need for their own tax return. These letters are sent to individuals, foundations, organizations and businesses. Projects are welcome to send an additional note to their donors thanking them for the contributions. However, they should not include FEIN or make any mention of tax-deductibility. Any communication with tax implications needs to be sent by the SEE office, and not the Project, so that SEE will follow IRS regulations.

In-Kind Contributions: In-kind contributions are services or material goods given to the Project. The tax laws governing in-kind contributions and deductions are quite complicated. A few general guidelines are as follows:

- Personal services and space are not tax-deductible.
- If the value of the contributed item exceeds $500 please notify the SEE office because certain tax forms must be filed.
- If the value of the contributed item exceeds $5,000 the item must be appraised.
- If an individual donates the materials or goods, the value of the contribution is the fair market value of the goods or services.
- If a company donates the material or goods, a different set of rules applies. Please contact the SEE office for answers to specific questions.

LOBBYING GUIDELINES

As a 501(c)(3) public charity, SEE-sponsored Projects are restricted from certain forms of political expression. Campaigning (electioneering) is completely forbidden. Projects may engage in non-partisan research and get-out-the-vote efforts. Projects may not engage in direct support or opposition of a candidate for political office. SEE is particular in how these activities are tracked because the IRS places a cap on total lobbying expenditures. Please call or write the SEE office for more clarification should you plan on doing any sort of lobbying.

POLICIES

Budgets & Receipts: If a Project does not have adequate funds to cover any requested disbursements before incoming checks are deposited, funds will be dispersed only after the checks have cleared the bank. Invoices can be sent to SEE, where they will be paid directly to the vendor. If a budget is submitted for an advance, 100% of related receipts from that budget must be remitted before additional funds will be disbursed.

Receipts: Valid receipts are mandatory for reimbursement. It is vital you save all receipts for Project expenses to submit to SEE. Projects need to submit actual receipts showing each item that was purchased because SEE needs to have proof that all receipts are project related. SEE does not accept credit card or bank statements that simply show the total of the purchase. If the receipt is difficult to read or vague in description, please write an explanation of what was purchased in more detail. When purchasing books/publications for Projects, please list the titles so SEE knows they relate to the Project mission.

Travel: SEE requires that Projects submit mileage diaries for any reimbursement related to the use of a personal vehicle for Project related activities. Mileage diaries are very simple to create and actually benefit the individual. Instead of getting reimbursed for individual expenses (gasoline), the entire cost of the car is reimbursed for each mile used for Project work. SEE will reimburse mileage at the current rate specified by the IRS each year. In addition to using the mileage diary, you can get reimbursed for any Project related parking fees and tolls.

Mileage: SEE cannot pay vehicle expenses such as insurance but you can get reimbursed for each mile driven that is used for Project work. Just keep a mileage diary, which must include: date of each trip, destination, the purpose of travel and total miles traveled. Vehicles rented for Project activity are still paid/reimbursed in full, as are gasoline costs incurred with rented vehicles. IRS rates for mileage reimbursement is subject to change.

Telephone Bills: Unless the telephone number is used exclusively for the Project, telephone bills are to be itemized before they are submitted to the SEE office for payment/reimbursement. Only phone calls that are Project related will be paid by SEE.

Internet/Email: Both website hosting and email hosting used by the Project will be paid/reimbursed in full by SEE. However, SEE must receive a copy of every bill received relating to these charges.

Rent: SEE must receive a copy of all leases/rental agreements before funds can be disbursed. SEE can only pay an entire rent bill if the rented space is used exclusively for the use of the Project. If this is not the case, SEE needs to be informed of the percentage of the rented space that will be used exclusively for the Project. That same percentage is the amount of rent that will be reimbursed.

Utilities: SEE can only pay an entire utility bill if the utilities are incurred at an office rented exclusively for the use of the Project. If you use a portion of your home for the Project, SEE cannot pay the full utility bill for your home, only the same proportion as indicated in the previous section.

TIME AND SPACE

The IRS only recognizes tax-deductions for tangible goods and does not consider time or space tax deductible.

DISBURSEMENT FORMS

Every time a Project requests funds, the SEE office must receive one of three forms: the Disbursement for Services, Disbursement for Goods or the Disbursement for an Advance as described below.

Disbursement for Goods Form

This form is to be used for items you purchase for the Project. When using this form, be sure to attach copies of the receipts from the purchases you made or the bills/invoices you wish for us to pay. Please copy any receipts onto 8 ½ x 11 papers and number the pages. Then, total the amounts you spent by category (travel, materials, etc) and fill those amounts onto the form. Monies will be disbursed only when the total amount requested is accounted for with receipts.

Disbursement for Services Form

This form is to be used whenever you are paying someone for his or her services (as opposed to buying goods). Examples of vendors for which you use this form are: lawyers, landlords, caterers, designers, web hosts, accountants, grant writers, office workers, secretarial staff and casual labor. Attach the professional bill/invoice with this form. In cases where no invoice is provided, describe in detail the work that was performed (dates/times, what jobs were done and why). The information requested on this form is vital to SEE's tax reporting requirements. A social security number or tax identification number is required for each payee before funds are released.

Disbursement for Advance Form

This form is to be used whenever the project has the funds and wants to buy a specific item. They provide a budget to SEE, along with the Advance Form, and after the purchase provide the receipts.

If receipts are not received in for advances to a project by December 31st of that year, the individual of the project who was written the check will be sent a 1099.

PREPARING TO LEAVE SEE

SEE acts as an incubator, which implies that after some time a Project may think about "spinning off" into an independent legal nonprofit entity. A Project may want to become independent for various reasons. For small Projects, it is economically attractive to stay at SEE and continue to make use of the services. Even though the Project may remain financially small and have diverse sources of revenues, they may have a strong advisory committee that wants to "spin off" and develop into a Board of Directors. However, a more fundamental issue to consider is whether the Project would qualify as a public charity – something that is determined by the diversity of the funding base.

Since "spinning off" is determined on a case-by-case basis, it is important to talk with the SEE staff about the issues involved. By signing on with SEE, a Project is not committed to staying on for any length of time. The move to independent status may be pursed at any time. However, it is important to stay in communication with the SEE office when contemplating becoming a 501(c)(3) independent as SEE must always know the status of each project.

As Projects spin off from SEE, an exit interview and signature is required from the Project Director(s).

TERMINATION

The relationship between SEE and the Project may be terminated at any time and termination may be initiated by the Project Director(s) or by SEE provided that such is in compliance with the terms of any grant received in connection with the Project.

In order to terminate the relationship for any reason, the Project Director(s) must submit a signed and dated letter notifying SEE and the reason for the decision to terminate, stating the legal ability to do so under the grant holding SEE harmless for any claims arising by virtue of such termination.

To terminate a Project due to the Project Director(s) refusal to comply with SEE's membership and/or reporting requirements, SEE will submit a signed and dated termination notice to the Project Director(s).

If there are any changes to the Project status with SEE, the name or addressor in the Projector Director's or key personnel status and/or contact information, SEE must be contacted immediately.

CONCLUSION

The above is a summary of some of the more important information contained in the Operations Manual. In all cases, the most recent MOU or Operations Manual or the SEE office should be consulted in determining SEE's policy on any given issue. Projects are welcome to come visit the SEE office through an appointment.

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