

# Standard Operating Procedure for the Formation of and Transition to Subsidiary Corporations of SCA, Inc.

## 1. BACKGROUND

The SCA has operated its business successfully under SCA, Inc. since the corporation was founded many years ago. Over time, laws in various countries, US states, and other countries' provinces have changed requiring the SCA to change the way it manages the business side of the SCA. For example, several years ago, several foreign countries required that corporations doing business in their countries be registered as corporations in those corporations. This is why the SCA formed affiliated corporations in countries such as Australia and Sweden. These foreign countries have their own laws regarding how corporation are to be formed and operate. Affiliated corporations within the SCA follow Corpora but that is the only document common to SCA, Inc. and the affiliated corporations.

In the United States, individual states are cracking down on established laws and creating new laws governing how corporation operate within those states. The SCA, Inc. needs to register as a foreign corporation in all states in order to do business legally. Some states have restrictions and/or requirements for corporations registered as foreign corporations that the SCA, Inc. cannot satisfy. Setting up a subsidiary corporation allows the SCA, Inc. to register and do business in that state without some of the unwieldy restrictions and/or requirements. Please note, "Foreign Corporation" simply means a corporation that is not based in that particular state.

SCA has elected to create subsidiary corporations covering states where this is needed to comply with state tax laws and manage SCA's costs effectively. SCA, Inc. will be the parent company for the subsidiaries. In 2009, the SCA formed SCA-Illinois, Inc. as the operating corporation covering the SCA in the State of Illinois. This was done to comply with Illinois State law requiring that corporations with more than \$150,000 in annual gross revenues provide audited financial statements for all of branches. This would have required that SCA spend money that it cannot afford for audited financial statements for all local branches of the SCA. The first meeting of the Board of Directors for SCA-Illinois, Inc. occurred on Saturday, January 23, 2010 in New Orleans, Louisiana.

**\*\*\*Note – Mississippi law requires a CPA Review of the Books when the Total Gross Revenue reaches \$250K and a full audit if the amount goes over \$500K \*\*\***

## 2. LESSONS LEARNED FROM SCA-ILLINOIS, INC. TRANSITION

The largest lesson learned from the transition of local groups from SCA, Inc. to SCA-Illinois, Inc. is the key role that communication plays throughout the entire process. This communication must flow from the SCA Board of Directors down to the Kingdom level and the local branch level consistently, clearly, and timely throughout the entire process. As new transitions occur in those areas where more than one kingdom resides in the same state, this becomes even more important due to differences in State laws.

### a. Preparation for transition

#### i. SCA Corporate level preparation

Preparation for transition is largely a corporate level process which must follow the state-specific laws for the formation of new corporations in states. Fortunately, there is a great deal of commonality in this area since all US states must follow the same laws involving corporations and their governance. The SCA Board of Directors, the SCA Corporate Officers, and

the SCA Society Exchequer have the lead role for preparing for the transition to a subsidiary corporation.

ii. Preparation at Kingdom Level/Subsidiary Level

Communication of transition within a subsidiary corporation will require participation by both the Kingdom Exchequers and the Kingdom Seneschal's involved in the transition. The Society Seneschal along with the Society Exchequer and/or Corporate Treasurer will meet with the Kingdom Exchequers and Kingdom Seneschals to describe what needs to be done to achieve a successful transition. They will train the Kingdom Exchequers and Seneschals on what needs to be done to complete the transition. Most of the work for successful transition will be accomplished by the exchequers. The Seneschals will serve in their normal legal oversight and communication roles. Also, since the Seneschals are also signatories on bank accounts, they will need to be equally conversant in the goals and expectations for successful transition as are the exchequers.

### 3. FORMATION OF THE SUBSIDIARY CORPORATION

SCA, Inc. must create the subsidiary corporation and file the required documents in order to form a subsidiary corporation. Each state will be slightly different as to the required paperwork, however the following documents are generally required:

- a. Articles of Incorporation
- b. By-Law for the subsidiary corporation
- c. Application for the subsidiary's tax payer identification number

The first two documents require the services of the SCA outside legal firm to complete to ensure that state specific requirements are met. The outside law firm may take several months to complete Articles of Incorporation and By-Laws. The FEIN (Federal Employer Identification Number) will be needed first before the corporation can be formed. Application can be done online and a number assigned by the IRS within minutes. The FEIN is similar to a Social Security Number for individuals except it is given to corporations. This is a number unique to each corporation. In a separate process after the FEIN is provided, the US Internal Revenue Service conducts a review of the paper work and determines if the subsidiary would comply with the requirements to be designated as a 501 (c) 3, Not for Profit, Education Corporation. If the IRS rules that the subsidiary complies with the requirements for Not-For-Profits corporations, it then assigns the Tax Payer Identification Number and communicates its decision in a letter containing the Federal Taxpayer ID number. The IRS may take several months to complete its review and release its findings in a letter.

The SCA, Inc applied for a Group Determination so that as new subsidiaries are formed, they do not need to apply to the IRS for the 501c3 tax exempt status. This has nothing to do with being exempt from paying sales. All the IRS determines is that we are exempt from paying federal income tax on the revenues generated. We received the Letter of Determination in 2010.

### 4. PREPARATION FOR TRANSITION OF LOCAL AND KINGDOM LEVEL BANK ACCOUNTS TO SUBSIDIARY CORPORATIONS

- a. The Corporate Treasurer and Society Exchequer will set up a planning meeting for the subsidiary corporation and invite the Seneschals and Exchequers from the affected kingdoms and local branches.
- b. Before the planning meeting is held, the Kingdom Exchequer will complete a survey of all the local branches resident in the subsidiary and all Kingdom Level bank accounts that also reside in the affected state. The survey will be made to ensure the current seneschal and exchequer are

identified, that the contact information for the seneschals and exchequers is current, and that the current bank accounts are listed with bank name and bank account. This information should be available on the most recent quarterly exchequer's report. If this information is no longer valid, the Kingdom Exchequer must prepare this information and then make it available to the Society Exchequer.

c. If the Kingdom Exchequer and Kingdom Seneschal need to "clean house" regarding local groups that have become inactive or local officers that have changed, they need to do this prior to the planning meeting. If a group has become inactive, procedures must be started by the Kingdom Exchequer to dissolve that group and capture its funds in the bank account deemed appropriate by the Kingdom Exchequer.

d. The Kingdom Exchequer will create and maintain a complete and accurate list of contact information for all the local branch exchequers involved in the transition process. This can be achieved either via the creation of an electronic group (e-group, like, [MidlandsExchequer@yahoogroups.com](mailto:MidlandsExchequer@yahoogroups.com)). If not all local group exchequers join the e-group, then the Kingdom Exchequer must ensure that all exchequers receive copies of all correspondence. Use of an e-group enables the Kingdom Exchequer to post files to the e-group containing such items as the Tax Payer Identification Letter, required financial reporting forms, etc. However, if there are local group exchequers that chose or do not join the e-group, then the Kingdom Exchequer must make sure that they do indeed receive copies of all the documents required for the transition. The IRS Group Exemption Letter can be found on the Society Exchequer's website.

## 5. TRANSITION PROCESS FOR SUBSIDIARY CORPORATIONS

a. Transition to a subsidiary corporation at this stage becomes a money issue governed by US Internal Revenue Service and State treasury departments. All the legal/corporate issues need to be completed at SCA corporate level before starting the banking/money transition. US laws controlling US banking institutions (including credit unions) have all changed dramatically since September 11, 2001 with the passage of the Patriot Act since this law makes the creation of new bank accounts more stringent.

Creation of new bank accounts requires that the SCA provide the following documents to the banks.

i. Articles of Incorporation for the subsidiary (created by earlier by SCA, Inc., the parent company of the subsidiary)

ii. By-Laws for the subsidiary (created earlier by the SCA, Inc., the parent company of the subsidiary)

iii. Tax Payer Identification Letter (created by the US Internal Revenue Service and provided to SCA, Inc.)

iv. Resolution of the Board of Directors to open bank account authorizing named, specific individuals to a bank account (created by the SCA, Inc. Corporate Secretary (Vice President of the Corporate Office in Milpitas, California) which must be faxed or mailed directly from the Corporate office directly to the individual bank's representative for the bank/checking account. In order to have this document prepared by the Corporate Office, the local group exchequer must provide the following information to the Kingdom exchequer who validates the information before sending it to the Society Exchequer. If it is sent directly from the local exchequer to the Society Exchequer it will be bounced back to the Kingdom Exchequer.

i. Name of the group

ii. Modern names of the signatories (This must include kingdom and/or regional exchequer as a signatory on the account)

- iii. Bank name
- iv. Bank address
- v. Name of bank contact/to whom the paperwork should be sent
- vi. Bank's fax number
- vii. Contact phone number and/or e-mail address with the Modern name of the Group Exchequer in case of bank communication problems

b. The Society Exchequer will verify that either the kingdom or regional exchequer is a signatory on the proposed new bank account and that all the necessary information is provided to the Corporate Office. Once the Society Exchequer has received and verified all the required information, he/she will provide the request for a new bank account to the Corporate Office. The SCA Corporate Secretary will then prepare the Resolution of the Board of Directors to open a bank account and either fax or mail it to the bank. This document cannot go through a third party, such as the kingdom or local group exchequer.

**\*\*\*IMPORTANT NOTE: We will notify the Kingdom Exchequer when the information has been faxed to the banks. At that point it is very important for the Kingdom Exchequer to contact the local branch to have the local exchequer contact the bank to make sure the bank contact has indeed received the fax. We have had a number of times where the bank did not know what the paperwork was for and threw it away.**

c. Note: Those US states that have two or more kingdoms residing within the state, will likely have only one corporation covering the business side of the SCA. The local groups and members will still retain their game-side kingdom associations and relationships. The SCA has managed this overlap in states versus kingdom definitions for many years using the US Zip Codes in the exchequer reports to properly assign members' data to both states and kingdoms.

d. Once the bank accounts have been opened, the local group exchequers will then communicate completion of the local group's transition by informing the kingdom exchequer, via either email or US Postal Service, of the new bank account number, date on which the new bank account was formed, and the amount of funds transferred from the old bank account and the amount of funds transferred into the new bank account.

e. The Kingdom Exchequer will report the transition for individual local groups to the Society Exchequer by providing the information listed above in the previous subsection of this Standard Operating Procedure.

f. The Society Exchequer will then report completion of the transition process to the Corporate Treasurer, the Society Seneschal, and SCA Board of Directors. Groups failing to successfully complete the transition will also be reported by the Society Exchequer.

## 6. OPENING AND CLOSING BANK ACCOUNTS AND CD's

As soon as the Articles of Incorporation and By-Laws are completed and Federal Taxpayer Identification Number received from the US Internal Revenue Service is received, all local branches, kingdom accounts residing in the state undergoing transition to a subsidiary corporation need to close the old bank accounts under SCA, Inc. and open new bank accounts under SCA-[State], Inc. The SCA Board of Directors also needs to approve the Corporate Resolution to open up bank accounts.

The procedures to follow are detailed below:

Setting up a Yahoo Group for the subsidiary transition

*The most important element of the transition to subsidiary is communication. The use of a Yahoo Group is only part of the total communication effort! It is to be used as a repository of information. This is not required but rather a suggestion to help with the transition.*

- 1) Form a Yahoo Group to be used as a communication tool for the local branch, regional and kingdom exchequers involved in the transition. This Yahoo Group will also be used to hold all documents in a Files section required for the transition.
- 2) The kingdom exchequer or regional exchequer shall add the email addresses for all exchequers involved in the transition to the Yahoo Group.
- 3) The Files section of the Yahoo Group will be used to hold the following documents required for the subsidiary formation and transition.
  - a. Internal Revenue Service Taxpayer Identification Number letter for SCA-[State], Inc.
  - b. Exchequer warrant form for SCA-[State], Inc.
  - c. Required financial reporting forms

#### Steps to take to close existing bank accounts under SCA, Inc.

- 4) The Society Exchequer picks a cutoff date when all existing bank accounts **must** be closed and new bank accounts opened. However we know it is not realistic to open up one account and close another one on the same day so:
- 5) Once you have the new account opened stop writing checks on your old SCA group accounts immediately. If you **MUST** pay funds to a vendor or member and you haven't transferred enough money to the new account do the following:
- 6) Tell the vendors they must cash the check before the cutoff date as the account will be closing. If they cannot deposit funds that quickly, ask if you can pay them after the cut-off date. If neither of the above is possible, make arrangements with the Kingdom Chancellor of the Exchequer (KCoE) to pay only the absolutely necessary items for you if the kingdom account resides in a different state. You can make a transfer to the kingdom account for that amount owed the vendor either before or after the cutoff date.
- 7) If you have written checks that are still outstanding after the cut-off date, (not been cashed or cleared the bank), call the person/vendor that has not cashed the check and tell them that you will have to put a stop payment on it after cutoff date as the account will be closed. If they have lost the check and wish to have it replaced:
- 8) Ask if they can wait until after the cut-off date for the check. If they wait, void out the check and add the amount of the check back into the checking account and subtract the amount from the expense category, and write a memo of what occurred. i.e., if \$36.36 was written to Jane Doe for general supplies, on your ledger add \$36.36 to the checking account balance and subtract \$36.36 from the general supplies balance.
- 9) If Jane should tell you not to bother to re-issue the check, she doesn't need to be reimbursed: add \$36.36 to the checking account balance and add \$36.36 to direct contributions and write a memo of what occurred.
- 10) If you have any incoming pre-paid event/feast/etc. checks, deposit them up until cut over date. This will give time for any of those checks to clear. After the cut over date, hold any checks to deposit into the new SCA-[State] account.
- 11) Close out any savings accounts before the cutoff date. You can either put that money into your old account, or use it to open your new SCA-[State] account.

12) Certificates of Deposit (CD's) are handled separately as described below.

13) The Kingdom Chancellor of the Exchequer will prepare a new warrant for exchequers in the new subsidiary. It will be placed in the Yahoo Group for the state transition. A new SCA-[State] Financial Warrant will be placed in the files section of the [State] Exchequer Yahoo Group List. It is in Word format.

#### Steps to open SCA-[State], Inc, accounts

- 1) Print out your new SCA-[State], Inc. Financial Warrant and the SCA-[State], Inc. tax ID number. Send the modern names, street addresses, phone numbers and e-mail addresses of all the persons that will signatories on the branch account to the KCoE and Regional Exchequer.
- 2) Write a check for \$50 (or whatever amount your banks requires for minimum deposit) on your group checking account to Society for Creative Anachronism – SCA-[State], Inc. <your group name> to use as a deposit for your new account. For your reporting and ledger for the SCA old books, this will be a donation to another 501 c (3). For your reporting and ledger for the SCA-[State], Inc. new books, this will be a Direct Contribution.
- 3) If the branches reach an understanding about a bank they wish to use to pool their influence, and your branch wants to be a part of that, the Regional Exchequer/Kingdom Exchequer will have further info.
- 4) If you decide you do not wish to bank with that institution: take your ID, your Seneschal, (or at least one other signatory), and the printed materials from above and go to your bank of choice and open account.
- 5) It is possible that there will be a change in the above procedure depending on the wording of the Corporation Resolution.

#### Handling of Certificates of Deposit during subsidiary transitions

1. Certificates of Deposit are contracts between the banks and depositors enabling the banks to use a depositor's money for a specified time period in exchange for a specified, higher interest rate. Allowing these contracts to go to maturity allows the depositors to receive the named interest rate and avoid penalties for closing CD's before the maturity date.
2. To this end, any CD's that mature BEFORE the cut over date are to be closed on the maturity date, funds transferred into the SCA-[State], Inc. bank account. At this time, the local branch can elect to open a new CD under the new subsidiary.
3. If a CD matures AFTER the cut over date, leave the CD's in the SCA-Inc. bank account and allow it to go to full maturity. When the CD matures under SCA-Inc., cash it in and transfer the funds to SCA-[State], Inc. At this time, the local branch can elect to open a new CD under the new subsidiary.

## 7. EXCHEQUER WORKBOOKS

State-specific workbooks have been created and are to be used for new subsidiaries. They can be found at <http://www.sca.org/officers/exchequer/>

1. When the bank account for SCA, Inc. is closed, the Balance Sheet for local groups needs to show \$0.00 (Zero) as the ending balance. This is achieved after recording all other financial transactions in the workbook under SCA, Inc. and THEN "transferring out" the funds to another 501 ( c ) 3 corporation (SCA-[State], Inc.) If you have a Certificate of Deposit (CD) in the old bank account, you

will show the CD principal amount as an asset in the balance sheet AND as a Payable to SCA-[State], Inc. in the Balance Sheet. This will make the Balance Sheet show assets of ZERO dollars as the ending amount. Continue preparing quarterly and domesday reports for both SCA, Inc. and SCA-[State], Inc. until the CD matures. When the CD matures, record the interest earned as income on the Income Statement. This will increase the assets on the Balance Sheet to the sum of the CD principal and the interest earned. "Transfer Out" the total balance to another 501 ( c ) 3 corporation, SCA-[State], Inc. and remove the payable. This should take the ending balance to \$0.00.

2. Use the new state specific workbooks for the new SCA-[State], Inc. subsidiary.
3. "Transfer in" the funds from SCA-Inc. to SCA-[State], Inc. thus creating the beginning balance for the new subsidiary.
4. Prepare workbooks for both the old and the new accounts for as long as there are assets in the old account.
5. Do all reporting in SCA-[State], Inc. after the cut over date for both quarterlies and domesday reports.

## 8. FREQUENTLY ASKED QUESTIONS

- a. **Why is this necessary?** The SCA, Inc. needs to register as a foreign corporation in all states in order to do business legally. Some states have restrictions and/or requirements for corporations registered as foreign corporations that the SCA, Inc. cannot satisfy. Setting up a subsidiary corporation allows the SCA, Inc. to register and do business in that state without some of the unwieldy restrictions and/or requirements. Please note, "foreign corporation" simply means a corporation that is not based in that particular state.
- b. **Why isn't registration with the state sufficient?** Registering with a state is sometimes not as simple as filling out a form and paying a fee every year. Some states require foreign corporations to file state income taxes. Even though we may not pay state taxes, we will still have to file tax returns. Some states also have financial auditing requirements, including formal audits of branches where the corporation is sufficiently large. Multiple states fall into this category at this time.
- c. **Who makes this decision?** The SCA, Inc. Board of Directors, the SCA President, and the SCA Corporate Treasurer make the decision to create subsidiary corporations.
- d. **Who is responsible for implementing this?** The SCA Corporate Treasurer, the Society Exchequer, the Kingdom Exchequer and all branch Exchequers within the state are responsible for implementing the transition to subsidiary corporations. The Seneschal equivalents at all those levels must assist in this for several reasons. Most of the seneschals are also signatories and bank accounts and the seneschals continue to ensure that the SCA meets all of its legal obligations.
- e. **How is this different from affiliation like SCA Australia?** Affiliated organizations are subject to different civil laws in their countries, and so their corporate documents are not the same. Their Boards of Directors are completely different people. The only thing affiliate organizations share with the SCA, Inc. is Corpora.

A subsidiary company is one whose controlling interest is owned by another company. Subsidiaries use the same corporate documents except for those that specifically apply to the state. So SCA, Inc. and SCA-[State], Inc. share not only Corpora, but the Corporate Policies and any other governing documents that do not have a specific SCA-[State], Inc. version.

- f. **Why Illinois?** The State of Illinois requires that corporations having over \$150,000 gross income submit to (and pay for) formal audits of all included branches. The SCA, Inc. is well above that income limit. If the SCA, Inc. itself was to register in Illinois, we would not have enough money to pay for the formal audits of all US SCA branches even once. The branches in IL together do not come close to the annual income amount, so creating a subsidiary and registering that subsidiary in Illinois will allow us to operate within Illinois without those costly audits.
- g. **Why was Illinois first?** Illinois was the first state in this situation. It resides in only one kingdom. Therefore, Illinois' local groups were converted first as they would be the simplest to convert, and easiest state in which to test out the process.
- h. **Will other states need to do this too?** There are other states in similar situations that will need to go through this process, most likely after Illinois is complete and the conversion process is improved.
- i. **What does the new corp. look like? Who is the Board of Directors? When are their Board meetings?** The new corporation looks like a small mirror image of the SCA, Inc. The Board of Directors of the SCA-[State], Inc. is the same as the Board of Directors of SCA, Inc. The SCA-[State], Inc.'s Articles of Incorporation are almost exactly the same as the SCA, Inc.'s Articles of Incorporation. Corpora is the same, Bylaws are the same, Corporate Policies are the same.
- The Board meetings will be at the same time and place – and be similar to a court where the Crown allows a Baronial Court as part of their Court. The Board meeting for subsidiary will open, and if there is any business, it is conducted. Then that meeting will close, and the meeting for the SCA, Inc. will open.
- j. **What about SCA members living in subsidiary corporations? Are they members of SCA, Inc. anymore?** SCA members in subsidiary corporations are still members of SCA, Inc. There won't be any members in the subsidiary corporations except for the Society for Creative Anachronism, Inc. SCA, Inc. membership cards are still in effect, and nothing changes about the process of purchasing membership for anyone in Illinois.
- k. **Are there any changes in events in subsidiary corporations?** No. Events can occur just the same as they do today. SCA, Inc. insurance will still be available for events and practices. The only change is that all ads have to say to make the check out to SCA-[State], Inc. - [branch] instead.
- l. **Are there any changes to how the branches in subsidiary corporations will do business?** No, the subsidiary branches shouldn't notice any change in anything other than the one-time change of bank accounts, and financial reporting going forward. Nothing else changes due to this transition.