THE ANATOMY OF AN OPERATING AGREEMENT: WHAT EVERY LLC SHOULD HAVE IN WRITING

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Forming an LLC is relatively easy. You file a formation document with the state, pay a fee, and you have an LLC.

But that filing tells you very little about how your business actually operates.

That is the job of an **Operating Agreement**.

An Operating Agreement is the internal rulebook for an LLC. It establishes who owns the company, who has authority to make decisions, how money moves in and out of the business, what happens when circumstances change, and how the company ultimately winds down.

And yes—you should have one **even if you are the only owner.**

Here is what a well-drafted Operating Agreement should address

1. Ownership and Capital Contributions

For a multi-member LLC, the agreement should clearly identify each member, their ownership percentage, and what each contributed to the company.

Those contributions might include cash, property, intellectual property, or other assets.

For a single-member LLC, this section may seem obvious. You own 100%. But documenting that ownership and your initial contribution helps establish a formal record that **you and the LLC are separate legal actors**—an important concept when you formed the LLC specifically to separate business liabilities from personal ones.

2. Management and Decision-Making Authority

Who can act for the company?

An LLC may be **member-managed**, meaning its owners manage the business, or **manager-managed**, meaning management authority is delegated to one or more managers.

A multi-member agreement should also establish which decisions can be made by a simple majority and which require a higher level of approval or unanimous consent.

For a single-member LLC, the agreement should establish the member's authority to act on behalf of the company and may permit the member to delegate authority to employees, officers, or other representatives.

3. Money: Profits, Losses and Distributions

An Operating Agreement should explain how profits and losses are allocated and when and how distributions may be made.

With multiple owners, this becomes particularly important because ownership percentages, tax allocations, and cash distributions do not necessarily have to operate identically.

Even with one owner, putting these rules in writing reinforces an important principle: **the LLC's money is not simply your personal money.**

Maintaining that distinction matters for accounting, taxes, recordkeeping, and preserving the separation between the business and its owner.

4. Books, Records and Banking

Your agreement should establish basic financial governance, including maintaining appropriate books and records, the company's fiscal year, tax treatment, and the use of separate company bank accounts.

This section may not sound exciting, but it is particularly important for single-member LLCs.

Why?

Because when there is only one owner, it is incredibly easy to operate informally. You make every decision. You control every dollar. There is no partner demanding documentation.

That convenience can lead to blurred lines between the owner and the company.

Your Operating Agreement creates a framework for treating the LLC like the separate business entity you intended it to be.

5. Transfers, Departures and New Members

For multi-member LLCs, the agreement should address what happens if someone wants out—or someone new wants in.

Can a member sell their interest? Do the other members have a right of first refusal? What happens if a member dies, becomes disabled, gets divorced, files for bankruptcy, or simply wants to leave?

These are difficult questions to answer during a crisis. They are much easier to address while everyone is getting along.

A single-member agreement should also contemplate what happens if the owner later transfers an interest or admits another member.

6. Death, Incapacity and Succession

This is one of the most overlooked provisions for single-member LLCs.

What happens to the business if something happens to you?

Who can step in? What happens to your ownership interest? Who has authority to keep the business operating, access necessary records, pay employees or contractors, and protect company assets?

An Operating Agreement should work together with your estate and succession planning rather than leaving these questions unanswered.

7. Liability Protection and Indemnification

The agreement should reinforce the limited-liability structure of the LLC and address when the company will indemnify members, managers, or officers for actions taken on the company's behalf.

An Operating Agreement does not magically eliminate liability, and having one does not excuse an owner from properly maintaining the LLC. But it is an important part of documenting that the company is being operated as an entity separate from its owners.

8. Dissolution and Winding Up

Businesses do not necessarily last forever.

Your agreement should explain when the LLC can or must be dissolved, who has authority to wind it down, how creditors are paid, and how remaining assets are distributed.

Again, a sole owner may think, "I'll just decide when the time comes."

But the entire point of an Operating Agreement is to establish the rules **before you need them.**

"But It's Just Me."

This is the objection I hear most often from single-member LLC owners.

If you are the only member, you do not need an agreement to protect yourself from a difficult business partner.

But you still need one to **protect the integrity of the business itself.**

Your LLC exists because you made an intentional decision to create a legal entity separate from yourself. Your Operating Agreement documents how that entity operates, demonstrates that you are treating it like a real business, establishes your authority, creates rules for financial and administrative matters, and provides a roadmap for what happens if you are no longer able to run it.

Think of it this way:

The fewer people involved in your LLC, the easier it is to skip the formalities—and the more important it becomes to create them intentionally.

An Operating Agreement is not paperwork for paperwork's sake.

It is part of the foundation of your business.

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