

Fiscal Sponsorship

What is fiscal sponsorship?

Fiscal sponsors are tax-exempt charitable nonprofit organizations that provide different legal, financial and administrative services to individuals or charitable initiatives that are often referred to as fiscally sponsored projects, partners or members.¹

Projects do not have independent tax-exempt status but maintain the ability to conduct charitable nonprofit activities that align with the sponsor's mission.

Many different types of projects seek fiscal sponsorship with diverse missions, budget sizes, activities and phases of organizational development:

- Some projects seek shorter-term fiscal sponsorship to support startup or incubation.
- Other projects are fully established and choose to be fiscally sponsored indefinitely.
- In some cases, it is possible for an organization with 501c3 tax-exempt charitable status to inactivate its nonprofit status and participate in fiscal sponsorship.

Fiscal sponsors offer services that are customized to meet their organization's mission, the needs of their projects and the needs of the local community.² For example:

- TSNE MissionWorks (TSNE) provides comprehensive management and administration services including accounting, compliance and legal affairs, contracting, human resources, payroll services, grant and financial management and insurance to more than 50 projects that align with the mission to create a more just and democratic society.
- CultureWorks Greater Philadelphia (CultureWorks) offers three levels of services, including comprehensive fiscal sponsorship, to members whose missions foster fine arts, performing arts and media arts as well as heritage arts and humanities.
- Rainier Valley Corps (RVC) provides fiscal sponsorship and operational support to 12 partners located in the greater Seattle area, led by people of color and working in communities of color.³

¹ Throughout *Rethinking Overhead*, The Nonprofit Centers Network generally refers to fiscally sponsored projects unless describing the services of CultureWorks Greater Philadelphia, with fiscally sponsored members, and Rainier Valley Corps, with fiscally sponsored partners.

² The definitive source for information about fiscal sponsorship is *Fiscal Sponsorship: 6 Ways to Do it Right* by Gregory Colvin. Critical information and resources, for organizations interested in either becoming fiscal sponsors or becoming fiscally sponsored, is available at the National Network of Fiscal Sponsors, www.fiscalsponsors.org

³ Read more about TSNE MissionWorks, CultureWorks Greater Philadelphia and Rainier Valley Corps in the *Rethinking Overhead* case studies.

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As described by Faisa Farole, Executive Director of Somali Doulas Northwest and partner organization with RVC, “I haven’t run a nonprofit organization before... I needed to surround myself with people who knew what they were doing. I knew how to tell people about our organization and find grants that were suitable. But human resources, payroll, legal and different types of insurance - I didn’t know. RVC does all this...”⁴

There are many forms of fiscal sponsorship. The fiscal sponsor’s structure and services vary greatly depending on the area of expertise, governance, finance and operating procedures, funding model and appetite for risk. Two common models include:⁵

	Intention	Services likely include	Relationship Duration
Comprehensive Fiscal Sponsorship (Model A)	The project is treated as a program of the fiscal sponsor’s organization and does not have separate legal existence but does continue to direct and operate programs and activities	Legal, tax, accounting and finance, grants management, risk management and compliance, payroll, human resources and employment, insurance, information technology (IT)	Can be on-going and long-term
Pre-Approved Grant Relationship (Model C)	A relationship with a more limited scope than Model A, the fiscal sponsor works with the project to receive and distribute funding from external sources in compliance with legal and funder requirements	The receipt and distribution of funding for charitable expenses; projects maintain separate responsibility for liability and tax reporting	Can be one-time or a defined number of times related to project’s funding strategy and activities

Fiscal sponsors must maintain fiduciary control and responsibility by ensuring that the tax-deductible funds that are placed in their trust are distributed effectively to projects and utilized according to legal and tax regulations and the funder’s directives.

Usually, the fiscal sponsor assesses an administrative fee which is typically a percentage of the project’s revenues or expenses. Fiscal sponsorship fees vary greatly and may be set as a flat rate for all projects or a customized rate based on the complexity of services provided.

⁴ Watch Faisa Farole’s video interview for more information about her experiences as a partner organization of Rainier Valley Corps, available at <https://youtu.be/kz9ITu2ymi4>.

⁵ Gregory Colvin, *Fiscal Sponsorship: 6 Ways to Do it Right*

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A detailed agreement or memorandum of understanding (MOU) must be developed to specify the rights and responsibilities of the fiscal sponsor and the sponsored project. The agreement defines the services to be provided, the associated fees, the duration of the relationship and other critical information including the process for terminating the relationship. As with any legal document, a fiscal sponsorship agreement should be reviewed by an experienced nonprofit attorney and accountant.

Fiscal sponsors and projects must collaborate and communicate effectively to ensure that the services provided will meet the project's needs:

- Fiscal sponsors and potential projects must understand how their mission and activities are strongly aligned and how fiscal sponsorship will support this alignment.
- Fiscal sponsors must be fully prepared to take on a complex program of sponsoring projects, investing in leadership and staffing expertise, governance structures, financial systems and insurance.
- Projects seeking sponsorship must fully vet their potential sponsors and ensure that sponsors follow the best practices set by the National Network of Fiscal Sponsors.⁶
- Fiscal sponsors and their projects must inform funders, board members, advisors and other key stakeholders about the terms, duration and anticipated outcomes of the relationship.

Fiscally sponsored projects have the potential to realize many important benefits including:

- Access to efficient and expert services that abide by legal and tax standards as well as funder requirements
- An ability to maintain some level of programmatic independence and dedicate more time and resources towards mission-based programs and activities
- Possible cost savings by reallocating funding previously spent on the services provided
- Potentially rapid timeline for applying for, receiving and disbursing funding for charitable activities, particularly if the project is in the startup or incubation phase

As described by Risa Wilkerson, Executive Director of Healthy Places by Design and project of TSNE, "We're able to stay focused on our services and ensure high impact in our work. We don't have to hire additional staff to cover human resources, accounting, and things like that. We also feel a sense of comradery with our colleagues at TSNE MissionWorks, which expands our team."⁷

⁶ The National Network of Fiscal Sponsors' Best Practices to Fiscal Sponsorship are currently available at <http://www.fiscalsponsors.org/pages/best-practices-fiscal-sponsorship>

⁷ Watch Risa Wilkerson's video interview for more information about her experiences as a project of TSNE MissionWorks, available at https://youtu.be/Gr6_idgW2oE.

Fiscal Sponsorship as a shared service

The Nonprofit Centers Network (NCN) considers fiscal sponsorship to be an effective shared service option because:

1. Fiscal sponsorship requires that the sponsor and the project share a mission, social purpose or community impact.
 - Some fiscal sponsors have a broader mandate that encompasses the activities of more projects, such as TSNE's mission to "provide information and services to build the knowledge, power and effectiveness of individuals, organizations and groups that engage people in community and public life."
 - Other fiscal sponsors work with projects that create specific impact; for example, CultureWorks' sponsorship of individuals and organizations focuses on arts, performing and media arts, heritage or humanities related activities.
2. Fiscal sponsorship involves trust, sharing, collaboration or an exchange of value beyond money.
 - Comprehensive fiscal sponsorship involves a high level of collaboration and trust since the sponsored project relies on the sponsor for its legal structure, compliance, governance, grants management and back-office services.
 - The costs associated with providing fiscal sponsorship services sometimes exceed the fiscal sponsorship fee. RVC's fiscal sponsorship services are still in the startup phase, and a majority of activities are largely subsidized by philanthropy, though services are expected to evolve and become more self-sustaining over time.
3. Fiscal sponsors often seek to strengthen projects through holistic support, including capacity building, training and advocacy.
 - In addition to operational support, RVC offers its fiscally sponsored partners on-going capacity building coaching, organizational assessment and planning, mentorship, and peer learning opportunities.
 - CultureWorks is currently developing additional services for its members that include management support for fundraising, marketing, data management and operational funding.
4. Fiscal sponsorship redistributes risks, because sponsors assume fiduciary control and responsibility for projects. All projects share the sponsor's 501(c)3 tax exempt status and employer identification number. The fiscal sponsor is ultimately legally responsible for the actions of the project.

The latest from the field

NCN membership includes several nonprofit center organizations that offer or plan to offer fiscal sponsorship services to tenant and non-tenant organizations.

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The interest in fiscal sponsorship makes sense, especially because organizations that own or operate nonprofit centers often seek to build collaboration with and support for social purpose entrepreneurs, startups, and collaborative programs – projects that could benefit from increased operational support.

NCN also hears from more organizations that are considering fiscal sponsorship not only as a temporary way to receive and distribute funding but also as a long-term strategy. Relatedly, TSNE assesses a potential project's three to five-year vision, because its model of comprehensive fiscal sponsorship is believed to be most effectively implemented with long-term partners.

Fiscal sponsorship is also being used to provide holistic services to a specific cohort of projects. For example, RVC is intentional about working with a group of partners, all led by people of color and doing impactful work within communities of color in the greater Seattle area to build power by strengthening relationships, centralizing operations and receiving customized services.

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