

Fiscal Sponsorship

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What is fiscal sponsorship?

A fiscal sponsor is a nonprofit organization that provides **fiduciary oversight, financial management,** and other **administrative services** to help build the capacity of charitable projects.

Instead of starting a new nonprofit that would operate alone, organizers can sign a contract or agreement with an existing 501(c)(3) under a formal arrangement known as fiscal sponsorship.

What is fiscal sponsorship (continued)?



Fiscal sponsorship means that individuals and small teams are then open to receiving tax-deductible donations and become eligible for grants without creating their own formal business entity.



Fiscal sponsors place responsibility for implementing programs in the hands of project leaders while ensuring appropriate fiduciary oversight.



In this way, fiscal sponsorship has evolved as an effective and efficient mode of starting new nonprofits, seeding social movements, and delivering public services.

Fiscal sponsorship models

The most widely used models of fiscal sponsorship for charitable projects are:

- Comprehensive (“Model A”),
- Project is housed within the fiscal sponsor.
- Pre-approved grant relationship (“Model C”),
- Project is run by a separate entity funded by the fiscal sponsor.

Less widely used alternatives are:

- Independent Contractor Model
 - Project is run by an independent contractor who must report income via 1099
- Technical Assistance Model
- Project is run by a 501c3 org who purchases financial mgmt. and other admin svcs

FISCAL SPONSORSHIP MODELS

Management Area	Model C – Pre-approved Grant	Model A – Comprehensive
Program & Executive Direction		
Mission, Vision, & Program Dev.	You lead and determine this.	You lead and determine this.
Choice of Personnel	You do this.	You do this.
Finance/Resource Decisions	You do this.	You do this.
Basic Board Oversight	We do this for you.	We do this for you.
Insurances & Risk Management		
General Liability Insurance	You obtain this for your project.	We obtain and manage this for you.
Worker's Comp Insurance	You obtain this for your project.	We obtain and manage this for you.
Employer/Contractor Status	You are the contractor/employer.	We are the contractor/employer for you.
Contract/HR Legal Management	You need to manage legal issues.	We manage legal issues for you.
Marketing & Fundraising		
Public Identity/Constituent Rel.	You maintain and lead this.	You maintain and lead this.
Marketing & Sales	You do this.	You do this.
Donor/Funder Relations Mgmt.	You do this.	You do this.
Fundraising (Grants & Gifts)	You do this with our input and approval.	You do this with our input and approval.
Grant or Funder Reporting	You do this with our input and approval.	You do this with our input and approval.
Finance & Compliance		
Earned Revenues	You receive and track these.	We receive and track these.
Contributed Revenues	We receive and track these.	We receive and track these.
Paying Bills	You pay all of your bills.	We pay your bills following your instruction.
Accounting/Bookkeeping	You do all project accounting/bookkeeping.	We do all project accounting/bookkeeping.

Benefits



Donors are able to claim a tax deduction (for organizations which do not have tax-exempt status but are in a fiscal sponsorship relationship)



The non-tax-exempt organization can, under a fiscal sponsorship agreement, accept grants from private foundations

Benefits



SPEED – new projects/programs can start benefitting from tax exempt resources as soon as the fiscal sponsorship agreement is executed



For emerging organizations, it can provide an opportunity to test its ideas to determine community need and/or value



Allows for some organizations/programs to achieve their mission without ever creating a new and separate entity



Great alignment for projects with a defined life cycle

Benefits

- For some organizations, either tax-exempt or not, entering a fiscal sponsorship relationship makes sense because it allows them to outsource some or all back-office tasks.
- In-house coaching and mentorship
- **Depth of in-house expertise and infrastructure normally exceeds capacity of a start up or newly funded org**
 - Access to grant writers and fundraising personnel
 - IT infrastructure
 - Communication and marketing support
 - HR Team
 - Legal services
 - Real estate resources

Potential Pitfalls

Lack of values alignment

Amount of autonomy is unclear

- Project
- Admin vendors

Termination process is not clearly understood when executing the sponsorship agreement

- Notification process
- Use of project name, brand, and other intellectual property after termination
- Is termination viewed favorably and encouraged when in the best interest of the project

Potential Pitfalls



Cost structure and potential cost increases

Will costs outpace fundraising capacity?



Some nonprofits offer fiscal sponsorship as a means for generating additional revenue without adequately staffing, managing, or overseeing their projects.



A fiscal sponsor without sufficient capacity may also jeopardize the assets raised for each of its programs by misusing or misdirecting those assets to pay for its general administrative costs or other inappropriate expenses.

Potential Pitfalls – Less Likely

- Competition among sponsored projects
 - Can multiple projects apply for the same funding opportunities?
- Where a fiscal sponsor neglects its responsibilities, a project can be operated in a manner inconsistent with applicable laws and/or beyond the sponsor's capacity.

This scenario can easily come back to haunt a fiscal sponsor and its leaders if the project's activities

(1) result in an unexpected liability, like one stemming from a lawsuit, penalty, or fine;

(2) trigger additional registration, licensing, or reporting requirements;

(3) fall outside of the sponsor's stated purpose in its governing documents; or

(4) attract significant negative publicity.

How much do fiscal sponsors charge?

Charges may vary depending upon the individual sponsor, however here are some ballpark figures generally constituting the overall cost.

- **Base rate:** A Fiscal sponsor typically charges 10-12% of all incoming project revenues
- **Payroll:** not all projects have staff on payroll, but any projects that do are in charge of covering the following for their employees:
 - **Workers compensation insurance**, which is an additional **1%** of each month's payroll for employees and contractors.
 - **Payroll taxes**, which is **9.1%** of the total amount paid out that month.
 - **Shared payroll fee**, which generally amounts to **\$2-3** each month payroll taxes do not apply for contracted employees
 - **Additional insurances:** when a project joins the fiscal sponsor, they are added to the shared **general liability insurance** policy and are charged a pro-rated fee
 - **Software platform fees:** Sponsor projects use a comprehensive donation, crowdfunding, and membership (**2% -2.8%**)

Questions for consideration during the vetting process?

What is the timeline and approval process for new projects?

How much money do I need to raise to qualify as a new project? Do I need commitments of multi-year funding prior to approval?

How do you assess the cultural fit for new projects?

What role, if any, can a board of directors play if I choose to move forward with you as my sponsor?

What services are provided through the administrative service fee?

Do I have the ability to purchase additional administrative services (above the base fee) when circumstances warrant it? Can I choose to purchase internally or procure through an external vendor?

Questions for consideration during the vetting process?

- Do you have a feedback mechanism in place to gather input from your programs and partners? If so, can you share an example of a time feedback was used to shift internal practices?
- Have you ever involuntarily terminated a project/program, if so, why?
- Do I have the ability to leave and move my project to a new 501c3 entity or to another fiscal sponsor ? If so, what is the process?
- Who retains the name and intellectual property should termination occur?
- Do we have to become employees or can we remain independent contractors?
- Do you have an onboarding process for new projects?
- Can multiple projects compete for the same funding opportunities?

Questions for
consideration
during the
vetting
process?

Will you oversee the quality and direction of my project, or will I have full autonomy?

Will I have a primary point of contact for support and can I meet key internal partners?

Do you mind connecting me with a few current or past partners that I may speak with as references?

Do you mind sharing your most recent financial statements and audit?

Do you have a working capital line of credit? How will you cover costs as funding ebbs and flows?

If needed, do you offer meeting space, offices, etc.... to sponsored projects?

Closing Thought

Fiscal sponsorship, when appropriately structured and implemented, is a valuable alternative to formation of a nonprofit organization, particularly where:

- **the sustainability of a separate entity is highly questionable,**
- **the charitable endeavor has a relatively short life span,**
- **or the project founders lack the capacity to properly administer a compliant nonprofit, tax-exempt organization.**

Resources

- <https://charitylawyerblog.com/2022/03/07/fiscal-sponsorship-vs-fiscal-agency/>
- <https://www.amazon.com/Fiscal-Sponsorship-Ways-Do-Right/dp/1888956070>
- <https://www.nonprofitexpert.com/fiscal-sponsorship-an-alternative-to-creating-a-nonprofit/>
- <https://nonprofitquarterly.org/fiscal-sponsorship-a-balanced-overview/>
- <https://www.fiscalsponsors.org>