

This chapter was originally developed for immigrant and refugee groups but the information is still applicable to non refugee groups.

Chapter 4 Fiscal Sponsorship

Introduction

Fiscal sponsorship provides a way for you to receive grants and donations to run programs without being an independent 501(c)(3) tax-exempt nonprofit organization. This chapter helps you decide whether your refugee organization needs fiscal sponsorship--and if so, how to develop and maintain a good relationship with a fiscal sponsor. ¹

As described in *Chapter 3*, it is hard in the U.S. to get grants for your organization unless it is an incorporated nonprofit organization with 501(c)(3) tax-exempt status from the federal Internal Revenue Service (IRS). Most foundations don't make grants to nonprofit organizations without 501(c)(3) status. Government agencies tend to have the same rules. As you know from Chapter IV, funders want to know you are using their funds only for educational or charitable purposes. Corporations and individuals usually want their gifts to be tax deductible. Having 501(c)(3) status provides that tax deduction and also gives your organization credibility.

However, there are many reasons why your organization may not be ready or able to obtain its own tax-exempt status. Yet you may need grant money to support your work. What is the solution? Often, it's fiscal sponsorship.

Fiscal sponsorship means one organization accepting and managing funds for another organization. A fiscal sponsor is a 501(c)(3) tax-exempt organization that agrees to provide a tax-exempt home for another nonprofit group, usually one that is either

Helpful Hint...

Fiscal Sponsorship - Do It Right

Many organizations become involved in fiscal sponsorship arrangements without formal written agreements or a clear understanding of the responsibilities of the fiscal sponsor or the sponsored organization.

As a result...

- If the organization gets its own 501(c)(3) status and wants to become independent, there may be a fight over who owns the equipment or the rights to materials developed during the fiscal sponsorship period.
- Sometimes the fiscal sponsor does not provide serious oversight – putting its own tax-exempt status at risk.

If you are considering fiscal sponsorship, do it carefully and do it right. This chapter is designed to help you accomplish that.

¹ The most respected reference on fiscal sponsorship is Gregory L. Colvin, *Fiscal Sponsorship: 6 Ways To Do It Right*. San Francisco: Study Center Press, Second Edition, 2005. Mr. Colvin is an attorney, and the material is relatively technical, but extremely informative. Much of the advice in that document has been included in this chapter.

unincorporated or incorporated but without its own 501(c)(3) status. In most fiscal sponsor arrangements, the fiscal sponsor has *full discretion and control* over the use of funds raised by the sponsored organization. However, the sponsored organization has considerable program autonomy, so long as its activities are consistent with the fiscal sponsor's tax-exempt purposes and follow the sponsor's policies and procedures.

Why Choose Fiscal Sponsorship?

Why might you choose to enter into a fiscal sponsorship arrangement with a tax-exempt organization?

First and foremost, you need a fiscal sponsor when you don't have tax-exempt status, but are ready to run a project that needs grant funds – and the potential funding sources will give only to a tax-exempt entity.

Usually, at least one of the following situations should also apply:

- ✓ You expect to operate for a limited period of time – several years at most. It doesn't seem worthwhile to become incorporated.
- ✓ You don't yet know whether your work will have enough long-term support from the community or from funders to sustain it. So it doesn't seem worthwhile to spend the money and time becoming a 501(c)(3) organization.
- ✓ You want to focus your energy on program activities rather than building an organization and doing fiscal management – maybe you will want to do that in the future, but not now.
- ✓ You will soon file for 501(c)(3) tax-exempt status but want to start fundraising immediately.
- ✓ You need some incubation. Eventually you expect to become a 501(c)(3) tax-exempt organization, but you prefer to operate for a while under the umbrella of a larger and

Helpful Hint...

“The practice of fiscal sponsorship varies greatly. At the most fundamental level, a fiscal sponsor is a tax-exempt, nonprofit corporation that receives and disburses funds for programs that may or may not be incorporated. The fiscal sponsor often provides administrative and financial services to these groups, which may lack administrative or fiscal capacity. Fiscal sponsors vary greatly in the roles they play, the support they offer, the degree of liability they assume and the organizational models they utilize. Sometimes groups may choose to be a project of a fiscal sponsor because it is more efficient than operating as a stand-alone organization. Other times, a group chooses to be a project because their work is short-term (such as a film project). In still other cases, the group wishes to be a project of a fiscal sponsor until such a time that they can incorporate as an independent nonprofit organization.”

-- *Fiscal Sponsorship Field Scan*, Tides Center

more experienced nonprofit that can provide tax exemption as well as support and advice – and give you some program autonomy.

- ✓ **You are a coalition** including several groups and individuals, and you need one entity to receive grants and manage money for the coalition.

If at least one of these situations describes your organization, then you should seriously consider fiscal sponsorship.

What Does the Fiscal Sponsor Do?

A fiscal sponsor accepts and oversees grants and donations for another group. Legally, the fiscal sponsor has *full discretion and control* over the use of these funds. However, specific roles vary, because there are many types of fiscal sponsorship.

For an unincorporated association, having a fiscal sponsor is usually like becoming a project of a larger organization that manages your money, hires and pays your staff and other expenses, does all necessary reporting, provides insurance, and oversees your work. The fiscal sponsor's Board of Directors usually delegates considerable program oversight responsibility to your organization's leadership group, which acts as an advisory committee to your programs.

Keep In Mind...

Legally, in a fiscal sponsor relationship,

- The fiscal sponsor must be in controlling position, and
- The work of the sponsored entity must be related to the fiscal sponsor's tax-exempt purposes.

If your organization is incorporated, you may choose to take on more management responsibilities, such as hiring your own staff and doing day-to-day fiscal management, but the fiscal sponsor still has *discretion and control* of funds.

The specific responsibilities of the fiscal sponsor should be stated in the agreement (which should be *written*) between the fiscal sponsor and the sponsored organization. For an unincorporated organization, the fiscal sponsor usually provides many or all of the following:

- ✓ **Financial management:** The fiscal sponsor accepts and manages funding for your association as the sponsored organization – it does all necessary accounting, financial management, and financial reporting, to both funders and government agencies. Your association is included in its annual audit and your income and expenses are a part of the 990 form it submits to the IRS each year.
- ✓ **Human resources management:** Your association's staff are legally employees of the fiscal sponsor and are covered under the sponsor's personnel policies.

- ✓ **Administrative management:** Your association's staff and work are covered by the sponsor's policies and procedures, and the fiscal sponsor's insurance package (including general liability as well as health insurance, unemployment, and worker's compensation).
- ✓ **Program oversight:** Your association's programs operate under the fiscal sponsor's program umbrella. It ensures that funder requirements are met, and provides broad program oversight.
- ✓ **Other services:** Your fiscal sponsor may offer other services, such as affordable office space, meeting space, access to technology such as high-speed Internet access, use of a bulk rate postal permit for low-cost mailings, and legal or other expert advice.

How does your "sponsored organization" maintain some autonomy over its programs and have the space to grow and learn? Usually, the sponsored organization:

- ✓ **Has an advisory board** that makes planning and programmatic decisions that meet the fiscal sponsor's policies and procedures (The advisory board can grow into a Board of Directors if the organization becomes an independent 501(c)(3) organization).
- ✓ **Is responsible for its own fundraising.** You raise the funds needed to support your programs, which means you develop relationships with funding sources.
- ✓ **Chooses and supervises the staff that run its programs.** While the staff are employees of the fiscal sponsor, you generally have considerable freedom to hire and supervise them, so long as they follow the fiscal sponsor's policies and procedures. Through your staff, you manage your programs.

What are Some Models of Fiscal Sponsorship?

There are many models and variations of fiscal sponsorship. Two types are particularly appropriate for an emerging refugee organization.

The Direct Project Model

If your organization is not incorporated (and sometimes even if it is incorporated but you want to minimize your financial management responsibilities), you will probably operate much like a project of the sponsoring organization. This means:

- The employees of your association are legally employees of the sponsoring organization.
- Your grants are really grants to the sponsor and belong to it legally.

- The fiscal sponsor has full responsibility for the work as if it had started the project itself, and its Board of Directors has ultimate authority over your work.

In this model:

- Your organization must raise needed funds, but these funds go to the fiscal sponsor. Donors are thanked by the fiscal sponsor, and funds go into a bank account controlled by the fiscal sponsor. Any funds coming directly to you are turned over to the fiscal sponsor. Applications for funding often go out under the signatures of both the chair of the fiscal sponsor's Executive Director and the advisory committee's Chairperson. Often the sponsor establishes a separate bank account for the sponsored organization's programs, but it controls that account.
- The sponsor does all financial management, from writing checks to preparing financial reports. Your staff request checks as needed to cover project expenses. Your income and expenditures are included in the sponsor's 990 form (the form each nonprofit organization submits to the IRS each year, showing its income, income sources, and expenditures). Your programs are included in the sponsor's audit.
- The sponsor usually receives an agreed-upon percentage of grants/donations to cover administrative costs of fiscal sponsorship--anywhere from 1% to 15% of funds raised.
- The sponsor's Board of Directors usually delegates to your organization--usually to an advisory board or other leadership group--the authority to supervise project operations and to hire and fire project staff. However, you must follow the sponsor's policies and procedures regarding programs and personnel.
- The fiscal sponsor reviews and oversees project reporting. Your project director may prepare narrative reports to funders, but the sponsor reviews them to ensure that the project is meeting funder as well as legal requirements.
- *The sponsor has full legal oversight responsibility*--and complete liability if anything goes wrong.

This model may seem very much like being a project of another organization, as described in Chapter 3. But there are important differences. You have a written agreement that describes your relationship with the fiscal sponsor, it is clear that you are a separate entity, and the agreement should make it clear that you may want to become an independent 501(c)(3) organization or leave and join another fiscal sponsor. You typically pay a fee to the sponsor for managing your funds.

The Grant Model

If your organization is already operating programs and is you have begun to develop management systems and procedures, you may want a fiscal sponsorship model that gives you more autonomy and responsibility. For example, you might already be incorporated as a nonprofit organization. You may be able to use a Grant Model of fiscal sponsorship.

In this model:

- **The fiscal sponsor makes “pre-approved grants” to your organization using funds raised for your work.** It develops a grantor-grantee relationship with your organization. When you raise funds for your program from foundations, public agencies, or other sources that go to the fiscal sponsor, the sponsor makes a grant to your organization to run the program, then oversees the grant.
- **Your organization must have a legal, tax, and accounting identity--including your own Federal Employer Identification Number (FEIN) and your own bank account--and the capacity to manage the grant.**

Remember that the sponsor cannot simply give you a grant and leave you to manage it independently, because you don't have tax-exempt status. To use this model, the sponsor must be able to prove that it is not merely serving as a “conduit” for transferring funds to a non-tax-exempt entity. To avoid this, the sponsor:

- **Must have a grantmaking process** through which your organization requests grant funds.
- **Must be willing and able to carefully administer the grant or grants to your organization,** since you are not a tax-exempt organization.
- **Provides appropriate oversight of the use of grant funds, to ensure that the money is used as specified in the grant agreement** (though the level of oversight is far less than with the Project Model).
- **Typically retains a specified percent of the funds raised by your organization to cover administrative costs.**

To use this model, your organization needs to be able to:

- **Hire and oversee its staff.**
- **Manage its projects.**
- **Manage its own finances, including payroll, and file tax forms.**
- **Arrange for benefits such as medical insurance for its staff.**
- **Obtain its own liability and other insurance.**

This model is appropriate only if your organization has the systems and capacity to manage programs and funds.

Helpful Hint...

If You are Not Incorporated - Become an "Unincorporated Association" Before Seeking a Fiscal Sponsor

If your organization is unincorporated and has no formal written policies and procedures, you have no legal status. This makes it hard for you to negotiate or enforce a written fiscal sponsorship agreement. Who should represent you in the negotiations? Who can sign on behalf of the group? Who has the authority to complain and if necessary to sue if the fiscal sponsor does not live up to the agreement?

You can address this problem by formalizing your organization into what we will call an *unincorporated association*. To do this, you:

- Adopt and sign a set of policies and procedures called *articles of association* that state your purpose, identify a leadership group (steering committee or advisory board) that can act on behalf of the group, and describe your decision-making process. These are a form of bylaws.
- Send a notice to the Secretary of State to say that your unincorporated association exists.

Now your association exists as a legal--though not incorporated--entity, and your leadership group has the power to enter into a fiscal sponsorship agreement, enforce it, and if necessary terminate it on behalf of the association. (This approach is suggested in the Colvin book, *Fiscal Sponsorship: 6 Ways to Do It Right*.)

Can We Have a Fiscal Sponsor if We are a 501(c)(3) Organization?

Yes--although the relationship is often more like contracting for management services. Often a new or small organization chooses to maintain a fiscal sponsorship type arrangement with a more experienced nonprofit organization even though it has its own tax-exempt status, so it can focus on programs rather than administration and infrastructure. In such situations, the fiscal sponsor may provide fiscal and personnel management for the sponsored organizations.

If you enter such an arrangement, you will need to file your own Form 990 with the IRS and submit other regulatory documents since you are an independent nonprofit organization, but you can pay the fiscal sponsor to prepare them.

If your organization is incorporated, you are already a legal entity with the power to negotiate and enforce a fiscal sponsorship agreement.

What are the Advantages and Disadvantages of Having a Fiscal Sponsor?

Advantages

Obtaining fiscal sponsorship offers a number of advantages for small, emerging nonprofit groups committed to assisting refugees. For example:

1. You can fundraise and offer donors tax-exemption through the fiscal sponsor.
2. If you are in the process of applying for 501(c)(3) status, the approval process usually takes four to six months. A fiscal sponsor enables you to raise tax-exempt funds immediately.
3. If you expect your project to be short-term, you can raise funds for it without having to develop an organizational infrastructure or pay the fees required for incorporation and your application for tax exemption.
4. You can focus your energy on fundraising, programs, and planning, and leave financial management and reporting and other infrastructure to the fiscal sponsor.
5. The management experience and credibility of your fiscal sponsor can enhance your fundraising success.
6. A good fiscal sponsor will provide mentoring for your staff and volunteer leaders, teaching you about program and organizational management, preparing you for eventual independence if you decide to become a 501(c)(3) organization.

Disadvantages

Operating under a fiscal sponsor has some disadvantages and challenges as well. For example:

1. The fiscal sponsor has full legal and fiscal responsibility for the funds you raise, and could limit your freedom to operate projects as you choose.
2. You may be prevented from approaching certain funders if the sponsor is already seeking or receiving funds from them.
3. You must usually pay a fee to the sponsor, and sometimes that fee may seem quite high.
4. If your organization is unincorporated and has no legal structure, you have limited legal power if the sponsorship relationship does not work well for you.

Despite these disadvantages, fiscal sponsorship is often the most practical short-term alternative for an emerging refugee-led nonprofit organization.

What Should We Look for in Choosing a Fiscal Sponsor?

Suppose you have decided you need a fiscal sponsor. What characteristics make an organization a good fiscal sponsor?

- ✓ **First, it must be a 501(c)(3) tax-exempt organization.** The main reason you need a fiscal sponsor is to offer tax-exempt status for your donors.
- ✓ **Second, it should be a good “fit” with your organization.** This means:
 - **A mission consistent with yours.** In order for the organization to serve as your fiscal sponsor, your work needs to contribute to its tax-exempt purposes. For example, if your organization does English language training, your fiscal sponsor’s mission shouldn’t be to support arts and culture through sponsoring dance groups.
 - **Values similar to yours.** If you focus on women’s empowerment, you want a fiscal sponsor that believes in women’s rights.
 - **Multicultural competence--or at least multicultural sensitivity.** The organization may not be experienced in working with refugees, but should at least be sensitive to different cultures and committed to refugee integration and advancement.
 - **Limited overlap in targeted funding sources.** Since grants you receive will legally be grants to the fiscal sponsor, the sponsoring organization may not want to take on an organization that would be competing with it for funding--or it might not allow you to solicit funds from funding sources important to it. If you aren’t likely to seek funds from the same sources, this is less of a concern.
 - **Enthusiasm for your work.** In the end, you want a fiscal sponsor that is excited about your work and interested in the community you serve. That excitement will help ensure you priority and attention as a sponsored organization.
- ✓ **Third, it should have strong infrastructure and management systems, and the capacity to be an effective fiscal sponsor and mentor.** This includes:
 - **Financial stability and good cash flow position.** This is important in ensuring that your programs and reputation are not put at risk.
 - **Strong administrative capacity,** including infrastructure, systems, and procedures for all aspects of management.
 - **Strong fiscal management capacity,** and use of generally accepted accounting principles. The organization needs to be able to manage your money and meet all funding source requirements. This requires a sound computerized fiscal system that uses cost center accounting and can provide detailed financial reports.
 - **Clear, written policies and procedures to guide program operations--**since you will need to follow them.
 - **Sound personnel policies--**since your staff will be covered by them.

- **Sufficient staff** to meet fiscal sponsorship responsibilities.

- ✓ Fourth, it should be knowledgeable about fiscal sponsorship requirements and committed to being an effective fiscal sponsor and mentor. This includes:
 - **Understanding the legal requirements and best practices for fiscal sponsorship.** The organization may have been a fiscal sponsor before, and may even have suggested formats for fiscal sponsorship agreements. If it has not previously been a fiscal sponsor, it should indicate a commitment to consulting with an expert and working with you to develop an appropriate agreement and procedures.
 - **A commitment to fiscal sponsorship.** The best fiscal sponsors see helping in the development of nonprofits as integral to their mission. They go beyond the legal requirements to spend the time and provide the mentoring to nurture the sponsored organizations.
 - **Willingness to support you in gaining visibility and organizational identity.** If you plan to become a 501(c)(3) organization someday, you will want to find a fiscal sponsor that supports your development and helps you establish your own identity.
 - **Willingness to allow the sponsored organization considerable program autonomy.** The organization should be committed to providing appropriate oversight without controlling your day-to-day project work. It should welcome the involvement of your leadership group as an advisory committee to its Board of Directors, and should be willing to delegate to it much of the responsibility for hiring and supervising staff and project activities.

- ✓ Fifth--but by no means least important--it should have a good reputation. Since you will be closely associated with the fiscal sponsor, you want the relationship to enhance your own credibility. Look for:
 - **A strong track record.** Look for an organization that is known for running effective programs and for a commitment to quality.
 - **Positive relationships with other organizations.** You want your fiscal sponsor to have a history of working well with other nonprofit organizations, public agencies, and other groups within the community.
 - **Respect and credibility in the community.** Your fiscal sponsor should be recognized and respected, with positive name recognition.
 - **Reputation among grantmakers.** If the organization has a history of receiving repeat grants from a number of different foundations and other funders, it probably has a good reputation with grantmakers. This is very important, since your funding sources will be making their grants to the fiscal sponsor.

How Do We Find a Fiscal Sponsor?

Once you know you need a fiscal sponsor and have some sense of the kind of fiscal sponsorship agreement you need (at least whether you need a Direct Project or a Grant Model), you will need to locate a 5021(c)(3) organization to serve as your fiscal sponsor. There can be difficult. In some communities, there are organizations that serve this role regularly. In others, you will probably need to find an organization that has limited fiscal sponsor experience but is a good fit with your group.

Where do you look for a fiscal sponsor? Try the following:

- Start with organizations you already know. Consider other service providers in your neighborhood, groups that have worked with you on particular issues, and organizations you know are providing services to non-refugee populations but seem interested in serving refugees.
- If you have a good relationship with a local resettlement agency, consider whether it might be a good fit.
- If you have a local or statewide immigrant and refugee coalition – or some other association of groups serving and advocating for immigrants and refugees – see if one of the members fits your needs.
- Consult knowledgeable public agencies, such as the local or state immigrant and refugee office or someone you know at a local department such as the Department of Human Services.
- Talk to your local United Way or Jewish Federation office. These groups fund many organizations, and tend to be knowledgeable about service providers.
- Consult your local community foundation, or talk to someone at another foundation that has been helpful to you.
- Ask community leaders or elected officials you know and trust.
- Look for one of the fiscal sponsors associated with the National Network of Fiscal Sponsors (NNFS). For some of these organizations, like the Tides Center, serving as a fiscal sponsor is a primary purpose.

Helpful Hint...

National Network of Fiscal Sponsors

The National Network of Fiscal Sponsors was established in 2004 to “collaboratively define and build the relatively unknown, and greatly misunderstood, field of fiscal sponsorship within the nonprofit sector.”

For information about the Network and its member fiscal sponsors, which are located throughout the country, go to www.tidescenter.org, click on “Strategies and Resources, then on “National Network of Fiscal Sponsors.”

Process for Implementation

What are some key decisions we'll need to make?

Before finding a fiscal sponsor, you will need to answer the following questions:

1. Do we really want to seek significant funding to support our work--funding that requires us to have 501(c)(3) status or access to an organization that has that status?
2. If so, do we want to incorporate and seek 501(c)(3) status immediately, or would we prefer to put off that decision but still begin to raise money?
3. Do we want and need a fiscal sponsor--rather than becoming a project of another organization (See Chapter 2)?
4. If so, what kind of fiscal sponsorship model might work for us – the Direct Project Model or the Grant Model?

What steps do we take?

After you have made these decisions, you are ready to find a fiscal sponsor. Here are some steps to take.

1. If you think you will need to use the Direct Project model, consider becoming an “unincorporated association” by adopting *articles of association*, which are a form of bylaws for an unincorporated nonprofit group. Then send this information to your state’s Secretary of State, to be officially known to the state. Now you have a legal structure for negotiating fiscal sponsorship.
2. Review the information in this chapter about what to look for in choosing a fiscal sponsor, and make a list of the characteristics that are most important to you. They are your criteria for assessing possible fiscal sponsors.
3. Look for possible fiscal sponsors that meet your requirements (consider the sources and approaches described in this chapter.) Make a list of possible organizations.
4. Once you have your list of possible fiscal sponsors, do some research. Check each organization’s website. Ask people you respect to provide information about the organizations. Try to find out if they have served as fiscal sponsors before, and if so, how that worked out.
5. Review the information you have obtained against your criteria, and identify the organizations that seem to meet your needs. These are the groups you will want to contact.
6. Once you have identified several organizations that seem promising, try to identify an appropriate person to meet with at each organization on your list. You may already know the right person. If not, see if you know someone who can make an initial contact by telephone or e-mail and help you arrange a meeting. It is usually best to meet with

someone senior in the organization, though you don't necessarily have to start with the Executive Director.

7. Use your contacts, or directly call the people you have identified to arrange a meeting with each one.
8. Have 1-2 key leaders of your group represent you at the meeting. Go to the meeting prepared to learn more about the organization and to discuss who you are, what you want to accomplish, why you need a fiscal sponsor, and why you think that organization might be appropriate. If the organization shows interest, be prepared to talk about what you want and need and see what the potential sponsor can offer.
9. Based on the meetings, call back your first choice organization and say you would like to work with them. You may need to go to another meeting or wait for a decision from their staff or Board. If they say no, go to the next group on your list. Don't get discouraged; the organization may still be a valuable contact. Go on to the second choice organization.
10. Once you have agreement from an organization, review this chapter's information about fiscal sponsorship agreements and identify information that is particularly important to your organization.
11. Ask the organization if it has a standard or sample agreement to suggest. Review it carefully with needs in mind, and look again at the information in this chapter.
12. Negotiate a fiscal sponsorship agreement. Don't enter into an agreement until you feel it provides a fair and supportive relationship for your organization. Consult with someone you trust at a nonprofit organization or funding source if you feel you need advice. You may want to consult an attorney who is knowledgeable about nonprofits.

What should the fiscal sponsorship agreement look like?

There are many models for fiscal sponsorship agreements. Each agreement will be slightly different, depending on the type of agreement and your individual circumstances. For example, the agreement for a group that expects to have its 501(c)(3) status within a year will be different from the agreement for a group that isn't sure it will ever want to incorporate. *See Appendix A: Sample Fiscal Sponsorship Agreement.*

A fiscal sponsorship agreement for a Direct Project Model sponsorship should generally include at least the following:

- A description of the fiscal sponsor and the "project" or "organization."
- A statement that the fiscal sponsor is willing to receive tax-deductible charitable contributions for the implementation of the "project" or for the benefit of the "organization," and that these funds will be used, with the administrative support of the fiscal sponsor, for the approved project activities.
- A requirement that funds be used for tax-exempt purposes consistent with the mission of the fiscal sponsor, and a statement that the fiscal sponsor has full discretion and control over funds raised and programs operated by the sponsored organization – since this is an IRS requirement.

- A listing of the fiscal-related services the sponsor agrees to provide to the sponsored organization, including receipt of funds and acknowledgment of contributions; fiscal management and reporting, with inclusion of these funds in the sponsor's financial reports, 990 form, and audit; etc.
- A description of human resources services to be provided, usually including employment of the sponsored organization's employees, and a statement that employees will receive the same benefits and be covered by the same personnel policies as the fiscal sponsor's other employees. This should include whether the fiscal sponsor will assist with recruitment, usually with reimbursement for costs of advertising. Also included should be some indication of how employees will be hired, such as a statement that these employees may be selected by the sponsored organization's steering committee or project director, but must be approved by the fiscal sponsor.
- Delegation of program management responsibility to the sponsored organization's steering committee, with the statement that the ultimate authority remains with the fiscal sponsor's Board of Directors.
- A specification of insurance coverage to be provided by the fiscal sponsor, such as general liability insurance, bonding, unemployment insurance, workers' compensation insurance, and any other types of insurance included.
- A listing of other services to be provided – such as office space, equipment, access to technology, etc.
- If the fiscal sponsor will provide training or mentoring to prepare the sponsored organization for independent 501(c)(3) status, a description of agreed-upon training and mentoring.
- Identification of a senior staff member of the fiscal sponsor who will serve as the liaison to the sponsored organization's project director and steering committee, to provide guidance and help resolve problems.
- A description of fundraising activities the sponsored organization may undertake, and any limits or requirements for prior approvals, requirements that letters be co-signed, etc. This usually includes a requirement that the fiscal sponsor receive all funds and sign all grant agreements.
- An indication of whether the fiscal sponsor will set up a separate bank account for funds raised for the "project" or "organization."
- Procedures to be used for reporting to funding sources, including responsibilities of each party, requirements for fiscal sponsor approval, etc.
- A specification of what fees the sponsored organization will pay for administrative services and for other services such as use of office space.
- A process for resolving problems or conflicts.
- The length of the agreement and how it can be renewed.
- Termination procedures and notice required. This should include agreements that grant funds not yet used will be transferred to a new fiscal sponsor or to the sponsored

organization if it has obtained independent tax-exempt status, once all bills have been paid. The agreement will probably specify that the fiscal sponsor can release grant funds only to another 501(c)(3) organization and with the permission of the funding source.

- Who will have control of intellectual property resulting from the project (e.g., materials prepared, curriculum developed), both during the sponsorship period and if the agreement is terminated – if the sponsored organization becomes an independent 501(c)(3) or moves to another fiscal sponsor. The sponsored organization should do its best to receive control of this intellectual property, or at a minimum, joint control with the fiscal sponsor.
- If the agreement is terminated, who will have title to any capital assets (such as computers or office furniture) purchased with project funds. The fiscal sponsor should be willing to commit to transferring these assets to the sponsored organization (if it becomes an independent tax-exempt organization) or to a new fiscal sponsor.

What are the common challenges during “start up”?

A new fiscal sponsorship arrangement, like any new relationship, offers a number of common challenges during the first few months of implementation. The following are particularly common:

- **Hiring of the first project staff is often challenging.** The steering committee or other leadership group of the sponsored organization will usually play a lead role, but may need help in recruitment. The group doing the screening will need to become familiar with the fiscal sponsor’s salary levels, employee benefits, and personnel policies, and someone from the fiscal sponsor’s staff will probably need to explain to serious candidates as part of the interview process.
- **Handling of expenditures is often initially awkward.** It will take time for the fiscal sponsor’s fiscal staff and the sponsored organization’s project staff to become acquainted and for the process of requesting and obtaining checks to become routine. There will be questions such as how the staff are to obtain office supplies: Do they order them separately or through the organization’s regular purchasing process? Is there a regular day of the week by which purchase requests are due? What if special purchases are needed between regular times? Will the project staff “charge” purchases? Ask for a check before they make the purchase? Make small purchases and be paid back? All this will get resolved with experience.
- **It takes time for project staff to become familiar with organizational policies and procedures, some of which are often unwritten.** If the fiscal sponsor does not regularly play this role, it may not have clear written policies and procedures for the sponsored organization to follow in implementing its programs. This can lead to confusion until staff learn the rules and the organizational culture.
- **Development of relationships and lines of communication.** It takes time to develop comfortable relationships between key fiscal sponsor staff and the project director, as well as between fiscal sponsor staff and the sponsored organization’s steering committee. The sponsored organization’s project director will need a contact that can

provide advice and guidance, and assisting when problems arise and systems don't work as they should.

- **Adjustments are required both for shared office space and for office space separate from the fiscal sponsor.** If the project rents office space from the fiscal sponsor, there may be unwritten rules about dress code, use of equipment, requisitioning of supplies, who answers the telephone at lunch or after hours, use of the reception area, and any number of other organizational culture issues. If the project operates at another location, there will be challenges associated with maintaining that office, getting checks and supplies to that office, and dealing with fiscal and other management long distance.
- **Fundraising often creates challenges.** Among the most common:
 - Developing a process for ensuring that the fiscal sponsor is aware of informal contacts with potential funders
 - Negotiating which funding sources are “off limits” to the sponsored organization because the fiscal sponsor is targeting them
 - Getting efficient reviews and approvals for proposals that may be written just before the deadline
 - Agreeing on how to handle contributions that come directly to the sponsored organization, in its name – but need to be given to the fiscal sponsor to be put into the project bank account and acknowledged by the fiscal sponsor, so the contribution is tax-deductible.
- **Getting reports prepared on time is often challenging.** It will take time for project staff and fiscal sponsor staff to coordinate preparation and review of narrative and financial reports. The project director will need to learn the fiscal sponsor's preferred format, and may need help from senior staff at the fiscal sponsor if financial reports are not prepared on time.

How Can We Minimize and Resolve these Challenges?

The best ways to prevent, minimize, or resolve such challenges are through:

- **Developing a comprehensive and clearly written fiscal sponsorship agreement – and then implementing it.**
- **Ensuring regular communication and timely problem solving.** It is very important that the fiscal sponsor and the sponsored organization both have identified individuals serving a liaison role. The steering committee and project director (once hired) should meet regularly with the fiscal sponsor's official liaison in the early months of the agreement, to review implementation and resolve problems soon after they arise. If issues are identified and addressed early on, implementation of the fiscal sponsorship agreement should become largely routine after the first three to six months.

Sustaining Your Fiscal Sponsorship Relationship

What are the common, long-term challenges of fiscal sponsorship?

- **Maintaining the relationship.** Sometimes the sponsored organization begins to take the relationship for granted, and the steering committee leaves the project director with most of the responsibility for interacting with the fiscal sponsor. This reduces mentoring opportunities and may cause the fiscal sponsor to give the sponsored organization less attention.
- **Providing ongoing attention to the sponsored organization.** Sometimes the staff of the fiscal sponsor gets too busy or the organization has an internal crisis or changes priorities. Such changes may mean that the sponsored organization may receive less attention and priority than it did initially.
- **Dealing with changes in leadership and personnel.** Often a smooth fiscal sponsor relationship becomes complicated due to changes in the volunteer leadership of the steering committee or changes in key fiscal sponsor staff or the sponsored organization's project director. New personnel require new relationship building.
- **Adapting to changing needs.** The needs of the sponsored organization may change over time, and the fiscal sponsorship agreement may not have the flexibility to adapt to these changes. For example, the sponsored organization may decide to incorporate and seek independent 501(c)(3) status. To prepare, it may want to take more responsibility for its own fiscal and administrative management. If the fiscal sponsorship agreement is based on the Direct Project Model, it may not allow for allowing the sponsored organization to take on additional responsibilities.

How Can We Deal with these Challenges?

The best way to deal with such challenges is to expect and prepare for them. This means:

- **Working hard to build trust and communication** between key personnel in both organizations, so problems can be prevented, minimized, and/or resolved.
- **Holding regularly scheduled (at least quarterly) meetings** between the fiscal sponsor's liaison, the sponsored organization's liaison, and the project director, to review progress and problems – so difficulties are identified and resolved promptly.
- **Building into the fiscal sponsorship agreement an annual review and the opportunity for needed revisions.** This may include moving from a Direct Project to a Grant model if the sponsored organization begins to move towards independence.
- **Working with the fiscal sponsor to be sure that procedures are in place for training new personnel,** so they understand both their responsibilities to the sponsored organization and the importance of the relationship.

- **Providing orientation for new sponsored organization volunteer leaders and project directors** about the agreement, their responsibilities for implementing it, and its importance to the organization.

How to Leave a Fiscal Sponsor

When Should We Go?

You should end the relationship when it is not helping you to carry out your program and serve your community. The time to leave depends on many factors – especially the relationship with the fiscal sponsor and the needs of your organization. If you do not feel you are getting the services and support you need, or if some other collaboration appears more beneficial, you may decide to change fiscal sponsors. If you decide either to end your program or to become an independent 501(c)(3) organization, you are likely to end the fiscal sponsor relationship even if you have been very happy with it.

How Should We Leave?

You always want to leave a fiscal sponsor relationship in a planned and organized way, working cooperatively with your fiscal sponsor. Your goal is to leave no loose ends and to end the relationship as friends and allies.

If you decide to end your program: You should do everything possible to complete the work plans under current grants, so that your funds are used up and your reporting requirements met. This is important to the fiscal sponsor, since it is legally accountable to your funding sources.

If you decide you need a different fiscal sponsor: You will need to find a new fiscal sponsor, negotiate an agreement with that entity, and then work with your fiscal sponsor and your funding sources to transfer funds and other assets from the current fiscal sponsor to the new one.

If you are becoming an independent 501(c)(3) organization: You will need to arrange with your fiscal sponsor and your funding sources to transfer funds and other assets to your own organization.

Whether the transfer of assets is to another fiscal sponsor or to your own organization, many of the same rules apply. If your fiscal sponsorship agreement is vague, then you will have to negotiate the terms of separation at the time of separation – not an ideal situation, especially if one party wants the separation and the other does not. If your fiscal sponsorship agreement is appropriately written, it will include a process for termination and specify what assets are to be transferred.

If you have a Direct Project type of fiscal sponsorship agreement, the fiscal sponsor “owns” your funds, equipment, and intellectual property unless the fiscal sponsorship agreement says otherwise. It is therefore very important that your fiscal sponsorship agreement include clear provisions that give you the right to transfer funds and other assets to another 501(c)(3) organization and to maintain control of intellectual property developed during the fiscal sponsorship period.

What are the Challenges and Pitfalls of Separation?

The greatest challenge of separation is to accomplish it in a way that leaves you and your fiscal sponsor on good terms, ready to work together in the future. As noted above, that is best accomplished through having a clear and comprehensive fiscal sponsorship agreement. An agreement that does not clearly address termination and ownership of assets creates difficult challenges.

If you are changing fiscal sponsors, the transfer of funds and other assets is complex even if everyone is on good terms. Your funding sources must pre-approve transfer of their grant funds from the grantee (your current fiscal sponsor) to the new fiscal sponsor. It is sometimes easiest to make the transition at the end of a grant period, to minimize the transfer of funds. Sometimes you have grants with different starting and ending dates, so this is not possible.

Another challenge is fundraising during the transition period. You don’t want new grants or donations going to the old fiscal sponsor in the last months of the agreement, because you want to minimize the need to get permission from funders to transfer the money. You also want to avoid paying administrative fees twice – one to each fiscal sponsor – for the same grant funds. But you can’t afford to have grants or contributions stop coming in. One useful approach is to have the new fiscal sponsorship agreement phase in while the old one is being phased out. In other words, complete the new agreement so that the new fiscal sponsor is able to accept funds on your behalf during the transition period.

If you are ending your fiscal sponsorship agreement because you have become an independent tax-exempt organization with your own 501(c)(3) status, some of these challenges are reduced. You can begin receiving grant funds and contributions as soon as you receive your 501(c)(3) status, even if the fiscal sponsorship agreement is still operational. And most funding sources will be happy to approve the transfer of grant funds from your fiscal sponsor to your own organization.

Communicating to your community about the separation is both important and challenging. If there have been difficulties with the fiscal sponsorship relationship, you don’t want to announce them publicly, but you will need to give a sound reason for your separation. If you are becoming an independent tax-exempt organization, that provides a positive message, and you will want to give public thanks to your fiscal sponsor for supporting your development.

How Do We Maintain a Positive Relationship with our Former Fiscal Sponsor?

You are likely to maintain a positive relationship with your former fiscal sponsor if you:

- Accomplish the transition either without serious conflict or without discussing that conflict with people outside the two organizations.
- Give public credit to your former fiscal sponsor for assisting in your development.
- Provide a plausible positive explanation for a move to another fiscal sponsor – if it is clear that the move represents new opportunities or changing priorities, rather than a negative experience with your former fiscal sponsor. When the reasons are positive ones, it is very important to communicate this publicly.

Should We Consider Serving as a Fiscal Sponsor?

If your organization has 501(c)(3) status, you may want to consider becoming a fiscal sponsor for emerging refugee organizations. Before you make this decision:

- Consider the characteristics of good fiscal sponsors, and see if you can meet them.
- Be sure your organization has the staff time and the capacity to provide appropriate fiscal management and oversight to meet fiscal sponsorship requirements. Don't take on fiscal sponsorship if it will put your organization or the sponsored organization at risk.
- Consider what kind of group it would make sense for you to sponsor, given your mission and priorities. Don't take on sponsorship of a group that isn't a good fit.
- If you believe you can be a good fiscal sponsor and that doing this will contribute to your mission, make your availability known to groups looking for a fiscal sponsor.
- Go through the same careful negotiation process suggested for an organization seeking a fiscal sponsor.
- Be sure you have a sound *written agreement* for your fiscal sponsorship.
- Follow the same steps suggested here for sustaining a good, mutually beneficial fiscal sponsor relationship.
- Regularly (at least annually) assess the experience and identify ways to improve your performance as a fiscal sponsor and your relationship with the sponsored organization. Be sure you implement these changes.

Resources

Fiscal Sponsorship: 6 Ways To Do It Right, by Gregory L. Colvin. San Francisco: Study Center Press, Second Edition, 2005. This is the single most respected source of information about fiscal sponsorship.

“Fiscal Sponsorship Field Scan: Understanding Current Needs and Practices,” a Tides Center Whitepaper, July 2006. This study will help you understand what kinds of organizations serve as fiscal sponsors, motivations for fiscal sponsorships, challenges, fees, and other profile information. Download from www.tidescenter.org.

Useful websites:

www.compsspoint.org - Go to Nonprofit Genie (FAQs) on Fiscal Sponsorship. The FAQs address a number of fiscal sponsorship issues, and include several sample fiscal sponsorship agreements.

www.tides.org/center - The Tides Foundation is the largest fiscal sponsor in the nation, and its website has several studies and other publications about fiscal sponsorship. It also includes the webpage of the National Network of Fiscal Sponsors.

Appendix A

MEMORANDUM OF AGREEMENT (MOA) Between FISCAL SPONSOR and the PROJECT

PARTIES TO THE AGREEMENT

FISCAL SPONSOR

Washington, DC

THE PROJECT

Washington, DC

PURPOSE

This Memorandum of Agreement (MOA) establishes and defines the conditions and mutual responsibilities of a formal fiscal sponsorship relationship between the Fiscal Sponsor and the Project. FISCAL SPONSOR will serve as the fiscal sponsor for THE PROJECT, which will legally be a project of FISCAL SPONSOR until it receives its own tax-exempt status. This MOA specifies the roles and responsibilities of each party and lays out procedures for continuing, terminating, or refining the relationship and for resolving disagreements or disputes.

OFFICIAL REPRESENTATIVES AND ADDRESSES

The official representatives for the parties to this agreement and contact information for them are as specified below, by position. Names of the individuals currently holding the positions are specified, with the understanding that if individuals should change, each party has the right to name a new official representative in writing, and must specify who within the organization has the authority to decide who shall be the official representative.

These representatives have authority to make decisions within the scope of this agreement that will be followed by the two parties. It is understood that certain decisions (to be specified later in this MOA) may require review and approval by the Board of Directors of FISCAL SPONSOR or of THE PROJECT. However, these representatives have authority for ensuring the full implementation of this agreement, coordinating communications and reporting, and resolving day-to-day problems that may occur.

THE PROJECT

Name, Title

FISCAL SPONSORS

Name, Title

TERMS OF THE RELATIONSHIP PRIOR TO THE PROJECT'S OBTAINING FEDERAL TAX-EXEMPT STATUS

Both parties recognize and agree that under the terms of this MOA, FISCAL SPONSOR, a 501(c)(3) tax-exempt organization, agrees to become a temporary fiscal sponsor for THE PROJECT, an incorporated nonprofit organization that does yet have its federal tax-exempt status. Under this fiscal sponsor agreement, THE PROJECT will legally be a project of FISCAL SPONSOR. The parties will have the following responsibilities and rights:

1. The FISCAL SPONSOR Board of Directors will serve as the legal policy-making body for THE PROJECT until it receives its 501(c)(3) status. The FISCAL SPONSOR Board has approved the relationship and agrees to serve as the fiscal sponsor for THE PROJECT as specified in this MOA. It will provide legal oversight for THE PROJECT's work and its funding until THE PROJECT receives its tax-exempt status. The FISCAL SPONSOR Board will have full legal authority for the organization until that time, as described below.
2. Until THE PROJECT has received its 501(c)(3) determination from the IRS, all funding designated for THE PROJECT's work, will come to FISCAL SPONSOR. FISCAL SPONSOR will be legally responsible for fiscal management and oversight of all funds restricted for THE PROJECT work. This will include but not be limited to:
 - a. Being responsible for bookkeeping and accounting for THE PROJECT funds.
 - b. Establishing a separate cost center or multiple cost centers as required by grants for THE PROJECT.
 - c. Being responsible for processing payroll for THE PROJECT staff.
 - d. Processing all accounts payable on authorization of THE PROJECT.
 - e. Ensuring that all funder requirements for fiscal oversight, including record keeping and reporting, are met.
 - f. Including the income and expenses of THE PROJECT in its audit and its 990 report to the Internal Revenue Service.
 - g. Maintaining files with copies of grant agreements for THE PROJECT funds.
 - h. Sharing copies of all THE PROJECT-related correspondence from funders, individual donors, vendors or any other communications pertaining to THE PROJECT within one week of receipt.
3. THE PROJECT staff will legally be employees of FISCAL SPONSOR and will be covered by FISCAL SPONSOR's personnel policies and procedures, including workers compensation coverage and health insurance. THE PROJECT will reimburse FISCAL SPONSOR for costs of health insurance for THE PROJECT staff.
4. Legally, the assets of THE PROJECT will belong to FISCAL SPONSOR, until THE PROJECT receives its 501(c)(3) status. FISCAL SPONSOR will keep careful, separate records of the capital assets (e.g., furniture, computer equipment, etc.) and other tangible assets, including intellectual property (e.g., reports, publications, training curricula) designated to THE PROJECT, including their depreciation, so that they may be transferred to THE PROJECT once THE PROJECT receives its 501(c)(3). Upon

implementation of this contract, THE PROJECT will submit to FISCAL SPONSOR a log detailing THE PROJECT's capital assets.

5. Under this fiscal sponsor agreement, FISCAL SPONSOR will charge THE PROJECT an administrative or management fee of \$1,000 per month to cover costs for the services provided to THE PROJECT. In addition, THE PROJECT will reimburse FISCAL SPONSOR for the additional costs of having THE PROJECT staff included on FISCAL SPONSOR's health insurance plan and pension plan.
6. At any meeting of the FISCAL SPONSOR Board at which decisions will be made that will affect THE PROJECT and/or its staff, a representative of THE PROJECT will have the right to be present and to participate in discussions. FISCAL SPONSOR must inform THE PROJECT staff of such meetings in advance.
7. THE PROJECT agrees that it will submit its application for recognition of tax-exempt status to the IRS within 3 months after this agreement is entered into. If it does not receive its 501(c)(3) status within one the Projectr, this agreement will be reviewed and revised. Both parties must agree to the changes, or the agreement will be terminated.
8. Both parties further agree that responsibility for management and oversight of THE PROJECT's program activities will be the primary responsibility of THE PROJECT's staff and Board of Directors. However, until THE PROJECT receives 501(c)(3) status, it will provide regular reports to FISCAL SPONSOR's Executive Director and the Board of FISCAL SPONSOR.

PERIOD OF AGREEMENT

This MOA will be in effect for a period of one year, beginning _____, 2006 and ending _____, 2007. This MOA may be modified or extended upon the mutual agreement of the Board of Directors of FISCAL SPONSOR and the Board of Directors of THE PROJECT.

TERMINATION OF THE AGREEMENT

To terminate this agreement, FISCAL SPONSOR must give three months notice in writing and THE PROJECT must give 30 days notice in writing. The party terminating the agreement must show evidence that the termination decision has been made by a majority vote of that party's Board of Directors.

The other party shall not have the right to prevent termination, but legal and funding requirements may affect the terms of the termination process, particularly if funds have been committed to or received by FISCAL SPONSOR on behalf of THE PROJECT but not yet expended.

