

**UNDERSTANDING
FISCAL SPONSORSHIP**
**A Profession Development Workshop
For Artists and Arts Organizations**

Presented by

Creative Capacity Fund, A Consortium of Arts Funders and by

COMMUNITY
INITIATIVES
IN SERVICE TO GREAT IDEAS

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WHAT IS FISCAL SPONSORSHIP?

- a relationship
- an arrangement

Between

A 501(c)(3) charitable, tax-exempt corporation
(the fiscal sponsor)

And

A charitable nonprofit activity
(the fiscally sponsored project)

This relationship can take a variety of forms, which have different legal and tax consequences.

WHAT ELSE IS FISCAL SPONSORSHIP?

A body of practice in the nonprofit sector

- Fiscal Sponsorship allows for public benefit activity to happen more quickly and more efficiently than the 501(c)(3) institutional model.
- There is no IRS description of fiscal sponsorship.
- The field is evolving and developing as its utility is appreciated by foundations, individual donors, and fiscally sponsored projects.

A BRIEF HISTORY OF FISCAL SPONSORSHIP

- 1954:** IRS 501(c)(3) code enacted to provide basis for charitable, nonprofit, religious and educational organizations to be tax-exempt.
- 1981:** Tides Center, the largest fiscal sponsor, incorporates in San Francisco.
- 1989:** John A. Edie writes article, “Use of Fiscal Agents: A Trap for the Unwary” for the Council on Foundations.
- 1993:** (revised 2005), Gregory Colvin writes *Fiscal Sponsorship: 6 Ways to Do It Right* (SF Study Center Press)
- 1996:** Free-standing, multi-purpose fiscal sponsor organizations established: Community Initiatives (then Community Initiatives Funds of the San Francisco Foundation) and Community Partners (Los Angeles).
- 2007:** National Network of Fiscal Sponsors convenes its inaugural gathering in Los Angeles.
- 2008:** San Francisco Study Center launches an online directory of fiscal sponsors: fiscalsponsordirectory.org.

HOW IS THE FIELD OF FISCAL SPONSORSHIP ORGANIZED?

- As of 2011, the IRS listed 1.1 million 501(c)(3) organizations.
- Fiscalsponsordirectory.org lists **176 fiscal sponsors operating in 32 states.**
- 1/3 of these are located in **California.**
- 18% of these are **community foundations.**
- These organizations sponsor **9,652 projects** and manage more than **\$1 billion in revenues.**
- The **largest** activity sponsored (by 73% of the sponsors) is **arts and culture.**

HOW IS THE RELATIONSHIP BETWEEN THE FISCAL SPONSOR AND THE FISCALLY SPONSORED PROJECT (FSP) TYPICALLY STRUCTURED?

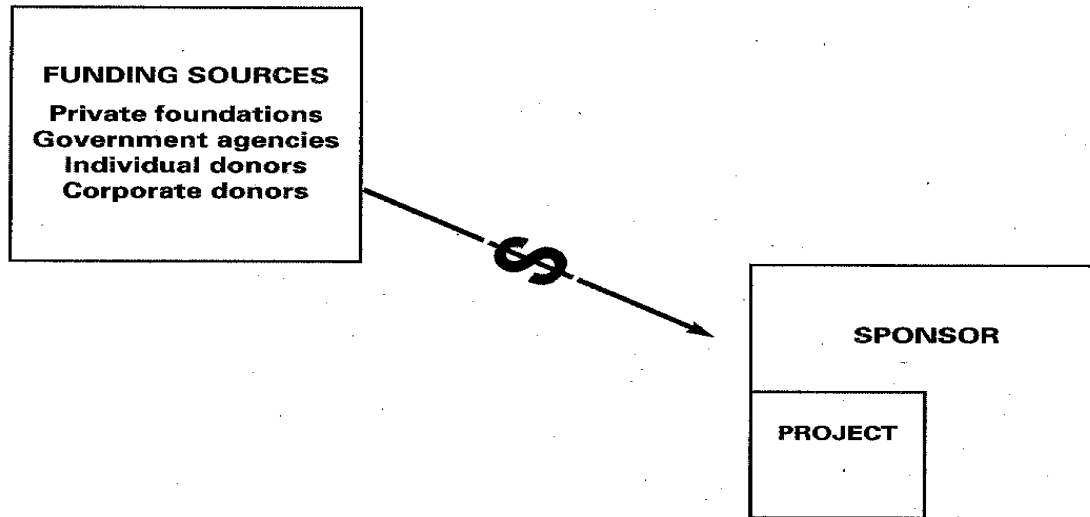
Model A vs. Model C
(Direct Project) (Pre-Approved Grant Relationship)

MODEL A: Direct Project or Comprehensive Fiscal Sponsorship

- The FSP belongs to the sponsor, who takes complete responsibility for its actions.
- Legally no separation between sponsor and FSP.
- Sponsor hires or contracts with FSP's personnel to implement the project.
- Sponsor controls FSP's donations.
- Sponsor responsible for all tax reporting (except any individual's own IRS 1040).
- All project revenues and expenses are run through the sponsor and maintained on sponsor's books.
- Sponsor owns the result (work product) of the project unless otherwise provided for by contract.
- All employees (or contractors) work for the sponsor.

From: Gregory L. Colvin, Fiscal Sponsorship 6 ways To Do It Right

V. **Diagrams Illustrating the Models**

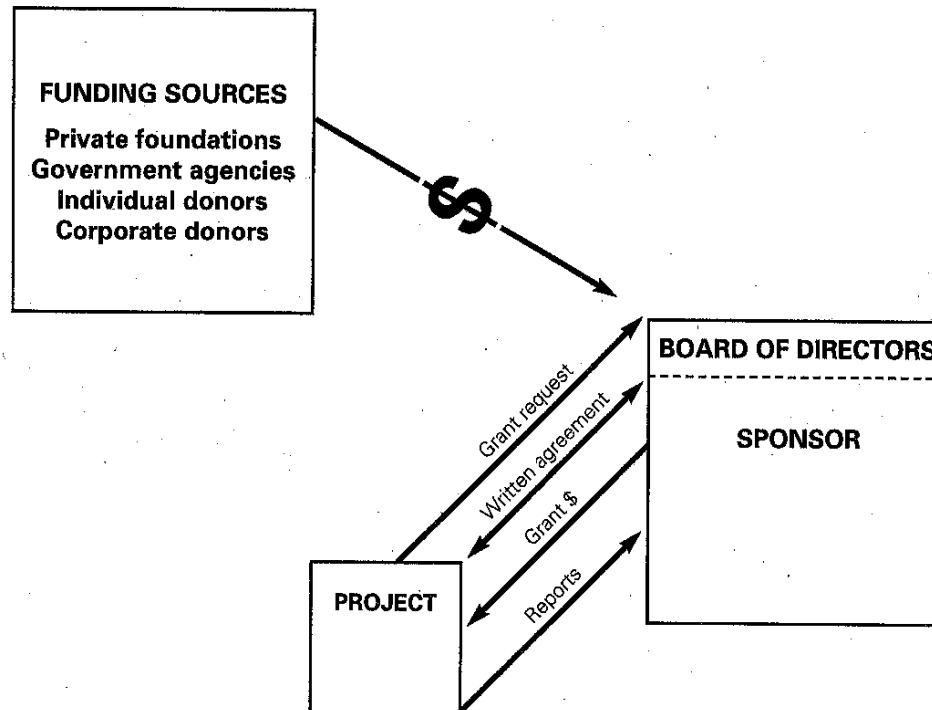


MODEL A — DIRECT PROJECT

MODEL C: Pre-approved grant relationship; Regranting

- FSP is a separate legal entity, e.g. an individual or corporation, with its own bank account and accounting.
- Uses the sponsor to receive tax-deductible donations.
- Donor makes a grant to the sponsor who then re-grants it to the FSP who agrees to make regular reports on its use and expenditures.
- FSP is responsible for its own tax reporting, depending upon the type of legal entity it is (corporation, individual, etc.).
- FSP usually owns the result of the work/activity.
- All employees (or contractors) work for the FSP.

From: Gregory L. Colvin, Fiscal Sponsorship 6 ways To Do It Right



**MODEL C — PREAPPROVED
GRANT RELATIONSHIP**

DON'T CALL YOUR FISCAL SPONSOR YOUR “FISCAL AGENT”

The IRS accepts fiscal sponsorship as legitimate because the sponsor is NOT the “agent” of the FSP, but—rather—the other way around:

The FSP is the **AGENT** of the sponsor.

The sponsor must exercise *variance power* (i.e. the sponsor has COMPLETE discretion and control) over the funds given to it for the benefit of the FSP.

Funds granted to the sponsor must also be used for the sponsor’s tax-exempt purpose.

The sponsor CANNOT be a “conduit,” a pass-through (*aka*, money laundering).

WHAT'S THE VALUE OF FISCAL SPONSORSHIP?

WHY WOULD A PROJECT WANT TO BE FISCALLY SPONSORED INSTEAD OF JUST GETTING ITS OWN 501(c)(3)?

BENEFITS OF FISCAL SPONSORSHIP

- **Faster:** A project can launch more quickly than waiting for 501(c)(3) ruling.
- Project has time to **incubate**.
- Project doesn't have to invest in **infrastructure** right away.
- **Financial management** is done at a high **professional** level, thereby increasing confidence of funders.
- Projects may be, by design, of **limited duration**.
- Projects may not be sure how long they will last; a chance to **“try it out.”**
- Fiscal sponsors can offer **economies of scale** and can provide services (or cheaper services) than the projects may be able to get on their own (e.g., health insurance, bulk purchasing, liability insurance).
- Potentially **greater legitimacy**: e.g. a funder may *know* the sponsor but feel more risk around a project that is new.
- Project **does not have to maintain corporate and governance structure** required for a 501(c)(3) organization.

BENEFITS OF 501(c)(3)

- More **control** by the project.
- Stronger **brand identity** for individual donors.
- Some foundations **won't grant** to projects with fiscal sponsors.

CONS

- Can take six months or more to obtain.
- Requires more work and more responsibility.
- Requires more management expertise that some social entrepreneurs possess.
- More infrastructure required while testing your idea.

HOW DO I DO IT?

Where do you find a fiscal sponsor?

- www.fiscalsponsordirectory.org
- Word of mouth
- Web search
- Ask potential funders

How do you go about choosing the right fiscal sponsor for you?

Some factors to consider:

- Cost (most charge 10% on revenues or expenses)
- Mission fit
- Additional services provided/not provided, e.g. insurance, etc.
- Location, processes, personalities
- Are NNFS best practice guidelines followed?
- Reputation: what do current FSPs say about the organization?

What is a typical process for becoming an FSP, and how long does it take?

PROCESS:

- Initial contact with fiscal sponsor: phone and/or email. Discussion of project and sponsor services.
- Complete application for sponsorship.
- Application reviewed by sponsor; likely face-to-face interview between project director and sponsor; risk assessment.
- Application submitted to sponsor's Board of Directors for review.
- If accepted, sponsorship agreement and policies are signed by both parties (sponsor and FSP).
- Orientation to sponsor's policies/procedures.

TIMING:

- Depends upon frequency of sponsor's board meetings (monthly, bi-monthly, etc.).
- If timing is critical (a grant is pending, etc.), application can sometimes be fast-tracked, e.g. board can meet by phone.

RISKS AND REWARDS OF BEING A FISCAL SPONSOR

Things to think about when considering becoming a fiscal sponsor:

- Capacity of your organization: time, staff, start-up costs, capacity to follow best practices in the field, capacity for risk assessment.
- Percentage of your business that you want fiscal sponsorship to be.
- Relationship with your insurance broker.
- Your organization's own cash flow needs and financial health.
- *Why* you want to do this.
- Your Board's commitment to fundraise for it.

PROS of being a Fiscal Sponsor

- Potentially self-supporting
- Providing a valuable and needed service to the field.

CONS of being a Fiscal Sponsor

- Depending upon the clientele, sponsor may have to subsidize the program.
- Exposure to liability through actions of Model A FSPs that are not on site.
- If not done correctly, sponsor could lose its tax exemption. If not done well, could create negative PR in your community.

WHAT ARE THE TAX CONSEQUENCES and REPORTING REQUIREMENTS for FISCALLY SPONSORED PROJECTS?

Resources

Colvin, Gregory L., *Fiscal Sponsorship, 6 Ways To Do It Right*, Study Center Press (1993, Rev. 2005)

- Includes table comparing Models of Fiscal Sponsorship

A synopsis of the book is available on Colvin's website: <http://www.fiscalsponsorship.com>

A Guide to Fiscal Sponsorship has been produced by the Foundation Center and is available at <http://foundationcenter.org/getstarted/tutorials/fiscal/index.html>

National Network of Fiscal Sponsors

<http://www.tides.org/?id=212>

- Best Practice Guidelines for Direct Project Fiscal Sponsorship (Model A)
- Best Practice Guidelines for Pre-Approved Grant Relationship Fiscal Sponsorship (Model C)

Community Initiatives website: www.communityin.org.

