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Fiscal Sponsorships – A First Step Toward Realizing Your Social Entrepreneurial Vision

Maybe you want to raise money for community clean-up efforts following a disaster. Or maybe you want to demo a new performing arts series but are not quite sure you're in for the long-term commitment of starting your own nonprofit. Or maybe you're ready to launch your vision now, but don't want to wait until you have tax exempt (501(c)(3) status to get started. Fiscal sponsorship may be the right tool to jumpstart your vision.

What is fiscal sponsorship? Fiscal sponsorship allows you, the social entrepreneur, to raise money from tax-deductible contributions by using the tax-exempt status of an existing tax exempt organization, the fiscal sponsor. Generally, the fiscal sponsor provides administrative services and legal and financial oversight of your operations. This allows you to focus on executing your mission while administrative and financial services and oversight are provided by your sponsor.

How does fiscal sponsorship work? After you have identified a fiscal sponsor, and the fiscal sponsor has determined it wishes to sponsor your program, you will enter into a fiscal sponsorship agreement. This is an important agreement that will govern the relationship between you and your fiscal sponsor. The basic financial mechanics of a fiscal sponsorship are fairly simple. Funds that you raise are paid to the fiscal sponsor. Under your fiscal sponsorship agreement, your sponsor agrees to treat funds raised by you as "restricted" for the use of your program.

In exchange for the sponsor's services, the sponsor will typically charge a fiscal sponsorship fee. The amount and structure of the fee are negotiable, but typically the fee is based on a percentage of the program's revenue.

The Internal Revenue Service (IRS) requires that the fiscal sponsor have complete discretion and control over the funds. The sponsor is legally responsible for ensuring the funds are used only for their restricted purpose. The sponsor may not function simply as a conduit of funds from the donor to the sponsored organization.

What are the benefits and risks of fiscal sponsorship? The most obvious benefit of fiscal sponsorship is you have the immediate ability to accept donations through the 501(c)(3) status of the fiscal sponsor and can skip the time consuming and expensive process of applying for and maintaining tax-exempt status. You can also benefit from the sponsor's experienced Board of Directors and compliance processes. The fiscal sponsor's management of administrative tasks such as accounting, grants management, and human resources needs may also create efficiencies and increase your ability to focus on programs and outcomes.

A downside to a fiscal sponsorship is that a project can lose some of its autonomy and is subject to the sponsor's administrative and governance authority. The sponsor's board of directors

has legal control over and ultimate oversight responsibility for the project. Depending on the terms of the sponsorship agreement, a project may have to give up ownership rights to work product and intellectual property created by the project while subject to the sponsorship agreement. Finally, if there is not a good fit between the sponsor and the project, internal conflict can arise harming the sustainability of the project. The project is dependent on the sponsor. So if the sponsor shuts down or mismanages its project funds, your project and its funding is also at risk.

How do I select a fiscal sponsor? It is common for organizations to seek sponsorship from a 501(c)(3) organization with which they already have a connection. If your project is not already connected with an existing 501(c)(3), check with local community foundations and nonprofit management support organizations such as the Minnesota Council of Non-Profits for referrals. Several 501(c)(3) organizations operate programs in which they provide fiscal sponsorship services.

When selecting a fiscal sponsor, you are selecting a “home” for your organization, so it is advisable to do your due diligence. Does the potential fiscal sponsor’s mission align with the mission of your project? What criteria does the potential sponsor use to decide whether to sponsor a project? What services will the sponsor provide? What fees does the sponsor charge for its services? These are just a few of the questions you should ask. But most importantly, you want to ensure that the potential fiscal sponsor is a 501(c)(3) in good standing that understands its legal responsibilities as a fiscal sponsor.

How should the agreement be structured? Fiscal sponsorship is an individualized process and after you have made the decision to pursue it and have found a potential sponsor, you will want to consult a qualified non-profit attorney to advise you in preparing the sponsorship agreement. There are two common structural models for fiscal sponsorships: (i) a Comprehensive Fiscal Sponsorship (involving a higher level of engagement between the sponsor and the project and less financial independence for the project); and (ii) a Preapproved Grant Relationship (involving less engagement between the sponsor and project and more financial independence for the project). Both models are flexible and you may choose to create a blended model based on the needs of the sponsor and the project.

Fiscal sponsorship can help launch new charitable projects and develop the capacity of groups and individuals that otherwise could not receive charitable funding. It can allow a new project’s leaders to focus on the project’s mission and programs and rely on an established non-profit for administrative support. Before entering into a fiscal sponsorship you should carefully consider your project’s goals, finances, and stage of development and be sure that a fiscal sponsorship is the right step for your project.

If you believe fiscal sponsorship is the right step, do your homework. Explore your options. Find a sponsor you trust and that fits with your project’s mission. Understand the risks and the cost. When both you and your sponsor are ready to move forward, work with a qualified non-profit attorney to help you prepare the sponsorship agreement. And once you have your sponsorship in place – go make your vision a reality!

