

Fiscal Sponsorship?

To be a 501(c)(3) or not to be

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Topic Overview

“To 501c3 or not to 501c3?”

Things to look for in them (sponsors)

- Price for promised service
- Track record/reviews/reputation
- Service/need match
- risk tolerance
- culture/values match
- growth that is too rapid. high levels of turnover
- ability and flexibility to anticipate potential needs
- ability to exit intact

THINGS TO LOOK FOR IN YOU (SPONSEE) - willingness to take leadership including self-development. Willingness to stay alert and surface and resolve issues promptly.

What is Fiscal Sponsorship?

Legal Perspective: arrangement when an organization, typically a 501(c)(3) or 501(c)(4), furthers its mission by receiving and expending funds to support a mission-aligned “Project” while retaining discretion and control over the funds.

Operational Perspective: organization chooses to share aspects of their operations and infrastructure with the mission aligned organizations within their community. Examples of sharing include: their legal home, finance, HR, operations, purchasing and other resources.

A few notes on language

“**Fiscal Sponsor**” or shared operations, fiscal hosting, shared stewardship, commons management, shared platform (Canada) - all represent generic term for the organizations that chooses to share their infrastructure.

“**Project**” is the generic term for the nonprofit activity carried out via a fiscal sponsorship relationship. “Sponsored organization”, “sponsee”, “member” and “partner” are also used.

“**Project Director**” is the generic term for the authorized individual representing the project in its relationship with the sponsor. (A different title may be used publicly.)

“**Model**” refers specifically to the alphabetical taxonomy created by attorney Greg Colvin in the early 1990s to refer to the different legal and compliance structures through which nonprofits can share resources and infrastructure.

A few myths and misconceptions

There is less compliance, oversight & accountability for funds given to a sponsored project.

The job of the fiscal sponsor is to provide compliance, oversight, and capacity to projects. Done well, the model offers *enhanced compliance*.

Fiscal Sponsorship is a new or special type of nonprofit that is regulated differently.

Charities practicing fiscal sponsorship have the same compliance requirements as public charities generally; nothing more, nothing less.

Fiscal sponsorship is only for start-up nonprofits or temporary projects.

It can be a long term solution as well as a repositioning/restructuring option for established programs and organizations.

How big is the field of fiscal sponsorship?

In the fall/ winter of 2023 Fiscal Sponsorship Field Scan sampled **100** fiscal sponsors. During one year of activities Fiscal Sponsors stewarded:

- Over **12,000** charitable projects;
- More than **\$2.6 billion** in sponsored project funds;
- employed/ contracted **individuals received** almost **\$700 million** in compensation.

- **58%** of respondents (\$1 million to \$49 million operations) managed **85%** of all projects, but only **14%** of sponsored expenses.
- **16%** of respondents (\$50 million and above in operations) managed **10%** of all projects, and **85%** of all sponsored expenses.

- **73%** of fiscal sponsor programs reported having been launched after 2000.

Robust demand and limited bandwidth

- ❖ For every two new projects brought in, sponsors turned away one.
- ❖ A **quarter** reported **temporarily suspending new project intake**. **80%** of these respondents mentioned **lack of capacity** as the main driver of this decision, with **38%** citing strategic planning.
- ❖ **62%** of respondents anticipated **adding support staff** in the next 12 months.
- ❖ The **greatest staff capacity needs** reported were in **program** (project) **management** (28%) and **finance** (21%).

Why Organizations Choose Fiscal Sponsorship?

- ❖ **To be a fiscal sponsor** - Any established organization can choose to share their infrastructure with others within the community.
- ❖ **To be a fiscal sponsee** - Any independent initiative (registered with IRS or not) can choose to operate in a shared infrastructure environment.



Access

Efficiency



Solidarity



Equity



Models and responsibilities

	Independent Formation	“Model A” Comprehensive	“Model C” Pre-approved Grant
Costs (% of Revenue)	17% - 27%	8% - 12%	4% - 8%
Finance and Operations Services	Project	Sponsor	Sponsor provides compliance <i>for contributions</i> . Project takes the lead in managing all finance and operations work.
Identity & Relationships	Project	Project	Project
Mission, Program, Finance Decisions	Project	Project and Sponsor	Project and Sponsor
Employees & Contractors	Project	Sponsor	Project
Compliance & Liability/Insurance	Project	Sponsor	Sponsor is responsible for compliance on contributions <i>only</i> . Project is responsible for the rest, incl. insurance.
Governance	Project	Project is in a shared fiduciary relationship with sponsor.	Project is in a shared fiduciary relationship with sponsor concerning contributions.

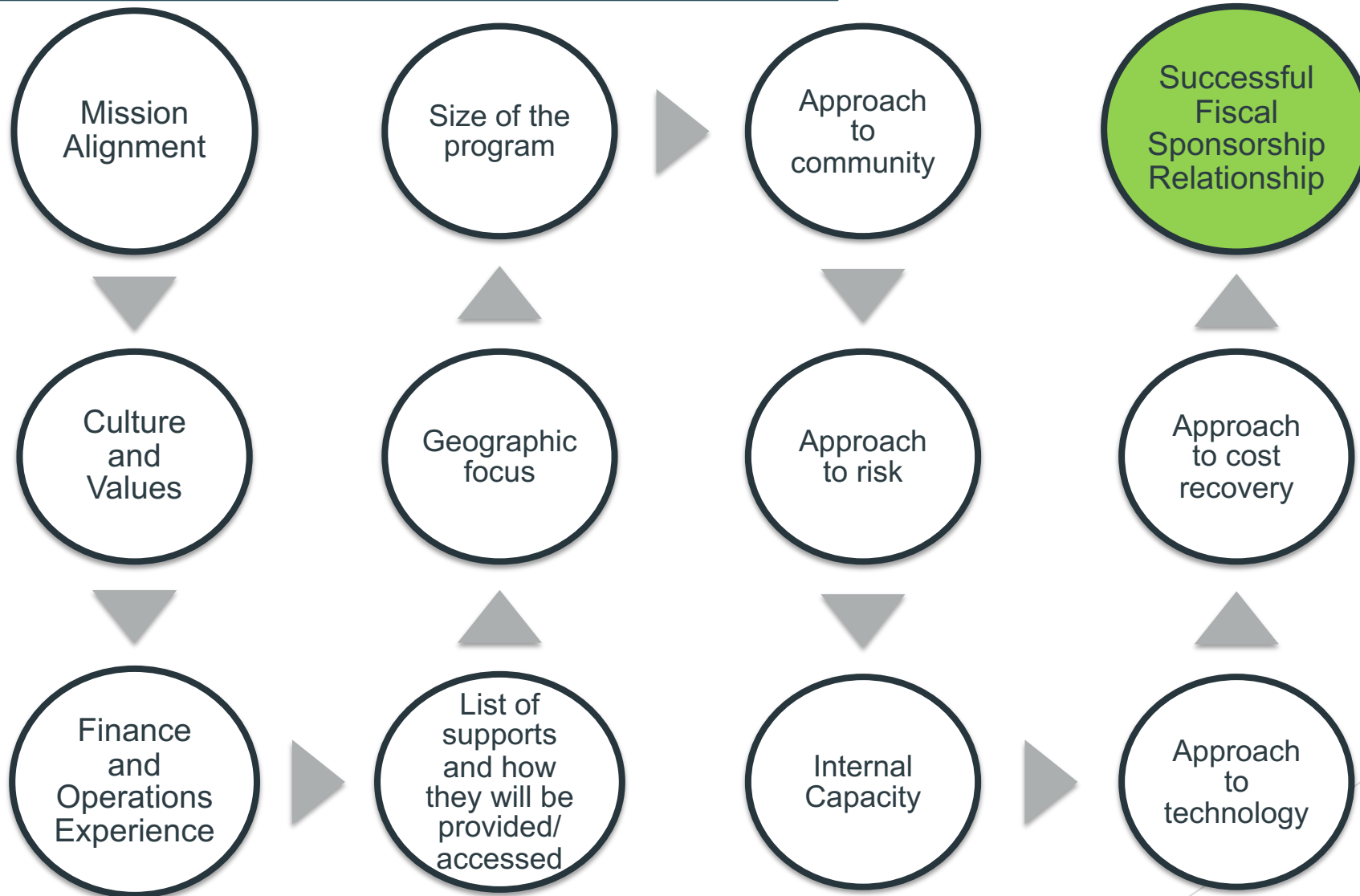
What do I need to know about the costs?

- ❖ Shared costs range from as low as 0% to as high as 20% with majority organizations spread across 7-10%. The % increases with the increase of services.
- ❖ Around 95% of all sponsors apply the determined % on revenue.
- ❖ In certain cases, the % is fixed for all groups, while others vary the pricing dependent on the complexity and size of organization.
- ❖ Several Sponsors choose to allocate additional costs.

Fiscal Sponsors use various approaches to costs recovery: from 100% direct philanthropic subsidy, to 100% cost recovery from projects allocations (“fees”).

Intentional Matchmaking

Alignment between What and How



Successful Relationship

Operations

Culture

Finance/Operations

- Do policies, procedures and practices support the needs of both? Are they values aligned?
- Are there external funder/customer pressures?
- Are staff and systems complementary and sufficient?

Mutual Accountability

- Are supports being delivered well and timely?
- Are both sides accountable in the relationship?
- Is there space for regular check-in and reflection?

Legal/Compliance

- Are there pressures from legal or regulatory bodies, funders and or other stakeholders?
- Are there risks/misalignments on regulatory issues?
- Are there special licensing/exemption issues arising?

Healthy Relationship Checklist

Risk Appetite

- Do both sides have a shared understanding of risks?
- Is there mutual alignment on *risk appetite*?
- Is there good mutual communication about risks?

Equity & Justice

- Is equity a core consciousness in the relationship?
- Do both sides actively pursue equitable practices?
- Is equity mutually defined and understood?

Interpersonal & Trust

- Are team relationships mutually supportive?
- Is there mutual trust and transparency?
- Do key representatives work well together?

Shared Management Commons

- the future approach for the sector

Clarity around the support and resources being shared and how they are stewarded and accessed by communities;

Commitment to intentional community building and ongoing learning about patterns of practice in resource sharing, and;

Peer governance, or stewardship by and for those organizations and communities who benefit directly from the shared resource.



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Takeaways

- Be an informed and informing consumer
- Contract carefully
- Expect and welcome learning
- Build your leadership stance

Resources & Wrap Up

Stay Connected on the Forum

YOUR FORUM AWAITS...

Most commons have a forum where community members can meet to surface mutual concerns and exchange resources. At the Nonprofit Financial Commons, THIS is that space. Any question you have about nonprofit finances, whether it has to do with high strategy or granular practice, can be brought here. Here you can glean the rich wisdom of your peers and share your own hard-won insights and knowledge. Be and spread the change you wish to see.

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