Should Your Nonprofit Act as a Fiscal Sponsor?

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The roots of fiscal sponsorship can be traced back as far as the 19th century, and some sponsors, such as Boston-based Third Sector New England, have been sponsoring nonprofit projects for more than 50 years. But fiscal sponsorships have become common only relatively recently. If a group approaches your nonprofit, should you consider one of these partnerships? Here's what you need to know.

What is it?
With a fiscal sponsorship, a 501(c)(3) organization (generally, a large, established charity) assumes responsibility for a nonexempt group's charitable project. Donations and grants, including recurring payments, are made directly to the fiscal sponsor, which enables donors to deduct their contributions. Although there are various sponsorship models, in general, the established charity takes care of the nonexempt group's accounting, bill paying, auditing, insurance coverage and tax reporting.

Sometimes fiscal sponsorships are confused with fiscal *agencies*. But fiscal agencies merely act as a project's conduit. A fiscal agency accepts donations on the project's behalf, but donors don't qualify for charitable deductions.

What's in it for them?
Fiscal sponsorships can provide fledgling nonprofits with the infrastructure and fiscal management they need to pursue a project. Specifically, it makes it possible for them to accept funding from donors and grantmakers that they otherwise wouldn't be able to receive. Groups that are currently applying for, or intend to seek, exempt status can jump-start their efforts. Also, an established charity can lend credibility to the project.

Such relationships are more common in certain nonprofit sectors. Arts and culture, for example, is the most popular type of sponsored project. Education, youth development, and services for children and families are also frequent sponsorship participants. Temporary or periodic projects usually are most appropriate for fiscal sponsorships. Projects that are too small to have staff or much infrastructure or are based outside the United States (and, thus, need a U.S. nonprofit to receive donations) also benefit from them.

What's in it for you?
When you choose a project that shares your mission and basic objectives, a fiscal sponsorship can enhance your own program offerings with little monetary outlay. Sponsorships aren't intended to be a source of income. But you can charge a nominal fee, based on the project's revenues or expenses, to offset overhead costs. Some charities also charge a small application fee.

These partnerships also have the potential to provide your nonprofit with greater exposure — and new supporters. For example, an established theater company might sponsor an edgy upstart company and attract that group's younger audience to some of its own productions.

How do you avoid risks?
To minimize the chance that a fiscal sponsorship will harm your organization's finances and reputation, carefully screen any applicants. Ask for — and check — references and perform background checks on the group's leaders. You may also want to consider directors and officers' liability insurance. Some states, such as California, require fiscal sponsors to have such coverage.

Also, it's critical that you ensure your nonprofit has the human and other resources to properly administer the project given its scope, location and funding. Such projects tend to evolve over time, and what starts small could quickly become overwhelming. Plan to regularly review a project's progress and your relationship with the group.

When you decide to sponsor a project, thoroughly discuss expectations with your charitable partner and outline start and termination dates. Because nothing leads to conflict like money issues, put in writing:

- The sponsorship charge,
- How disbursements will be handled, and
- Who will handle audit and reporting requirements.

Be aware that adding new activities can cause your organization to exceed state thresholds for an audit requirement.

Is it the right move?
Fiscal sponsorships aren't right for all nonprofits. Even if your organization is well established and eager to "mentor" an emerging charity pursuing similar goals, the risks may outweigh the benefits. Before committing to one of these arrangements, discuss it with your legal and financial advisors.

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