

Tool: Fiscal Sponsorship—Doing it Right

Summary

Fiscal sponsorship allows a newly forming organization to accept grants before becoming legally incorporated as a nonprofit. The agreements between a fiscal sponsor and the sponsored organization should be formalized in a written document.

Keys to Success

Clearly documented expectations, thinking ahead about each party's role in the agreement and relationship

“A written agreement can clarify fiscal sponsor relationships before complications arise. A range of issues from contractor oversight to use of funds to reporting obligations can be addressed.”

—George McKinley, Southern Oregon Small Diameter Collaborative

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A Good Agreement Goes a Long Way

The National Forest Foundation and many other funders require that any organization applying for funding must be either incorporated through the IRS as a 501(c)(3) charitable organization, or work with a fiscal sponsor who will accept the funds on their behalf.

Fiscal sponsorship can go beyond just managing money and providing a vehicle for fundraising—fiscal sponsors can also provide legal, administrative and programmatic oversight. The services a fiscal sponsor provides depend on your needs and the practices of the sponsoring organization.

A good fiscal sponsorship relationship begins with a good written agreement. Such an agreement might include:

- A statement reflecting the alignment of the sponsor's charitable mission with the goals of the sponsored organization;
- The specific services the sponsor agrees to provide;
- The execution and termination dates of the Agreement;
- The amount, if any, the sponsor will charge in administrative or overhead fees;
- Signature of appropriate person from each party.

A sample fiscal sponsorship agreement is attached. Agreements can be simpler than this one— please consider it a template that can be adapted to your group's needs.

Benefits

- Written agreements help overcome faulty memories, reduce misunderstandings, and are also legally binding.
- For a collaborative group in particular, a fiscal sponsor may be especially valuable as a neutral money manager. In addition, a newly-forming collaborative can focus their energies on building relationships and achieving project results rather than the legal requirements of forming a nonprofit.

Links

National Network of Fiscal Sponsors:
<http://www.fiscalsponsors.org/>

SAMPLE FISCAL SPONSORSHIP AGREEMENT

This is an agreement made on _____, by and between

_____ (“Sponsor”) and

_____ (“Project”)

The Sponsor: The Sponsor is a nonprofit corporation, exempt from federal tax under section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”). It is formed for purposes, which include

The Project: The Project is an unincorporated organization formed for the purposes of

The Agreement: The Sponsor is willing to receive tax-deductible charitable contributions for the benefit and use of implementing the Project. The Project, with the administrative assistance of the Sponsor, desires to use these funds in order to implement the Project’s purposes.

By entering into this Agreement, the parties agree to the following terms and conditions:

1. Receipt of funds: The Sponsor agrees to receive grants, contributions and gifts to be used for the Project, and to make those funds available to the Project.
2. Acknowledgment of charitable donations on behalf of the Project: The Sponsor agrees that all grants, charitable contributions and gifts which it receives for the Project will be reported as contributions to the Sponsor as required by law, and further agrees to acknowledge receipt of any such grant, charitable contribution or gift in writing and to furnish evidence of its status as an exempt organization under Section 501(c)(3) to the donor upon request. The Sponsor agrees to notify the Project of any change in its tax-exempt status.
3. Protection of tax-exempt status: The Project agrees not to use funds received from the Sponsor in any way which would jeopardize the tax-exempt status of the Sponsor. The Project agrees to comply with any written request by the Sponsor that it cease activities which might jeopardize the Sponsor’s tax status, and further agrees that the Sponsor’s obligation to make funds available to it is suspended in the event that it fails to comply with any such request. Any changes in the purpose for which grant funds are spent must be approved in writing by the Sponsor before implementation. The Sponsor retains

the right, if the Project breaches this Agreement, or if the Project jeopardizes the Sponsor's legal or tax status, to withhold, withdraw, or demand immediate return of grant funds.

4. Use of funds: The Sponsor also authorizes the Project to make expenditures, which do not exceed total contributions for the Project, on its behalf for use in the Project. The Project agrees to use any and all funds received from the Sponsor solely for legitimate expenses of the Project and to account fully to the Sponsor for the disbursement of these funds. On behalf of and with its funds, the Sponsor will pay for the Project's direct expenses like salary and benefits for Project staff, computers, and travel and meeting expenses. The Sponsor will obtain authorization from the Project to pay these expenses using the Project's funds.
5. Financial procedures: The Project must act within the financial policies outlined in the Sponsor's Financial Procedures Manual. Subjects of particular interest to the Project include: Cash Disbursements, Purchasing, Travel and Expenses, Consultants, Grants and Contracts, and Other – Fiscal Agent Status.
6. Reimbursement for use of office space and administrative support: In addition to serving as fiscal sponsor for the Project, the Sponsor will provide limited office space and administrative support on an "as available" basis to the Project. The Project will reimburse the Sponsor for office and administrative costs including reception, payroll and accounting support, rent, telephone, internet access, access to copy and fax machines, supplies, postage, printing, and long distance telephone. From _____(date) to _____(date), the monthly fee related to the use of office space and administrative support will be \$_____. This amount will be adjusted by the Sponsor on _____(date), and annually thereafter.
7. Financial accounting and reporting: The Sponsor will maintain books and financial records for the Project in accordance with generally accepted accounting principles. The Project's revenue and expenses shall be separately classed in the books of the Sponsor. The Sponsor will provide reports reflecting revenue and expenses to the Project on a monthly basis, within two weeks after the end of each month, and, on an annual basis, within three months after the end of each fiscal year of the Sponsor.
8. Employment: Unless otherwise agreed, and subject to their consent, all personnel to be compensated for working on the Project shall be at-will employees of the Sponsor and subject to the same personnel policies and benefits that apply to all employees of the Sponsor.
9. Governance: Authority to manage the programmatic activities of the Project is delegated to its Steering Committee, subject at all times to the ultimate direction and control of the Sponsor's Board of Directors.
10. Fundraising: The Project may solicit gifts, contributions, and grants on behalf of the Sponsor which are earmarked for the activities of the Project. The Project's choice of funding sources to be approached and the text of the Project's letters of inquiry, grant

applications, and other fundraising materials are subject to approval by the Sponsor. The Sponsor's Executive Director must co-sign all original letters of inquiry, grant proposals, and grant agreements. All grant agreements, pledges, or other commitments with funding sources to support the Project shall be executed by the Sponsor. The cost of any reports or other compliance measures required by such funding sources shall be borne by the Project. The Sponsor's Operations Manager must be copied at least one week in advance on all progress and final report submissions. The Sponsor shall be responsible for the processing and acknowledgment of all monies received for the project, which shall be reported as the income of the Sponsor for both tax purposes and for purposes of the Sponsor's financial statements. Grants involving government or public agency monies have substantial reporting and auditing requirements; therefore, if the Project desires to apply for government or public agency grants, the Project must get advance approval to do so from the Sponsor's Executive Director.

11. Renewal of this agreement: If both the Sponsor and Project desire to do so, this agreement may be renewed on _____ (date), and annually thereafter.
12. Termination: Either party may terminate this Agreement by giving 60 days' written notice to the other party. If the Project will continue to exist but one of the parties desires to terminate the Sponsor's fiscal sponsorship of the Project, the following terms and conditions shall apply. Another nonprofit corporation which is tax-exempt under IRC Section 501(c)(3) and is not classified as a private foundation under Section 509(a) must be willing and able to sponsor the Project (the "Successor"). The Successor must be approved in writing by both parties by the end of the 60-day written notice period. If the parties cannot agree on a Successor to sponsor the Project, the Project shall have an additional 60 days to find a Successor willing and able to sponsor the Project. If a Successor is found, the balance of assets held by the Sponsor for the Project, together with any other assets held or liabilities incurred by the Sponsor in connection with the Project, shall be transferred to the Successor at the end of the notice period or any extension thereof, subject to the approval of any third parties (including funding sources) that may be required. If the Project has formed a new organization qualified to be a Successor as set forth in this Paragraph, such organization shall be eligible to receive all such assets and liabilities so long as such organization has received a determination letter from the Internal Revenue Service which states the new organization is exempt from federal tax under section 501(c)(3) of the Internal Revenue Code no later than the end of the notice period or any extension thereof. If no Successor is found, the Sponsor may allocate the Project's assets and liabilities in any manner consistent with applicable tax and charitable trust laws and other obligations.

This Agreement will remain in force until the stated end of the project on _____(date) or it is terminated with 60 days written notice by either the Sponsor or the Project, whichever date is sooner.

By signing below, both parties agree to execute this Agreement on the day and year first written above.

SPONSOR:

Sponsor Name

Executive Director

Date

Chair, Board of Directors

Date

PROJECT:

Project Name

Director

Date

Chair, Steering Committee

Date