



Note: the following information does not constitute legal counsel and does not create an attorney-client relationship between you and Pro Bono Partnership, Inc.

Information about Fiscal Sponsorship Arrangements

A fiscal sponsor (FS) is an already-existing 501(c)(3) with a compatible mission to your new project, which agrees that the activities of your new organization or project furthers its charitable mission, and which agrees to receive money on your behalf which it will essentially "re-grant" to you. Generally, this enables your donors to receive tax deductions for donations earmarked for your work, even though you do not have (c)(3) recognition "of your own." Please note - although it may *appear* to be a pass-thru arrangement, it is not; legally it needs to be crafted as a re-granting arrangement whereby the FS retains the right - at least theoretically - to NOT forward the money to you if it believes that your organization is no longer engaging in the activities the FS believes are the basis of the FS arrangement. And it is appropriate only when the new organization's or project's work furthers the sponsor's charitable mission.

FS is a particularly good arrangement where the project is time-limited (e.g., disaster relief, building a monument, etc.), or where a program hopes to receive tax-deductible contributions *before* it has received its Determination Letter from the IRS. It is also a good approach where the proposed charitable activity is not large enough to justify creating a whole new organization (e.g., an annual event, or a scholarship fund).

All donations for your project go to the FS, earmarked for your project. The FS and the sponsored organization or project (you) will agree upon financial policies that apply to how often the sponsored organization can draw down on its money, or what kinds of documentation is necessary, etc. Sometimes the FS will employ the staff and take care of payroll (for an extra fee), and sometimes the FS provides office space, computer access, or other admin support (again, all for a fee). The FS is responsible for reporting the money it receives as part of its financials and on its informational return to the IRS – although, depending on the type of arrangement some of those responsibilities may apply to you as well. Typically, the FS collects a certain percentage of monies that come in or go out (usually 5% or so for the most limited FS services, and up to 15% for more substantial administrative support).

Fiscal sponsorship can be set up between a FS and a separate legal entity, or between an FS and a unincorporated project. In the latter arrangement, the project is essentially owned and run by the fiscal sponsor. We describe both in more detail below.

We have provided two samples of a FS agreement developed a number of years ago by Gregory Colvin, an eminent practitioner in this area, just so you can see what they may look like. This website provides further, useful information: <https://fiscalsponsorship.com/>



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The first sample agreement, called **Model C**, is for arrangements in which the sponsored organization is a separate, legal entity. This is also called a **Pre-Approved Grant Relationship Fiscal Sponsorship**. In this form of arrangement, the project is incorporated as a separate legal entity, and has a contract with the FS. In this form of agreement, you'll notice that the sponsored organization is described as a "grantee" and its activities are described as a "project" that the FS is supporting.

The second agreement addresses a different kind of FS arrangement in which the group or project becomes a *program* of another already-existing 501(c)(3) organization. This is called a **Comprehensive or Direct Project Fiscal Sponsorship**, and is referred to by Colvin as **Model A**. In this model, the new group is not separately incorporated, does not have its own governing board (although it may want to have an advisory board), and does not have its own staff. It is a program administered by the fiscal sponsor. The sponsoring nonprofit is responsible for all filings and compliance requirements; the program (you) get to focus on mission. The program can have a name and a "brand," but it is not really a separate thing.

In both of the above arrangements, control, authority and identity are issues to be addressed (with the Model C arrangement providing more of each than the Model A). But these concerns do not necessarily have to be deal-stoppers: like anything, a lot will flow from the people you'd be working with in the other organization, the compatibility of missions, the level of trust, etc. The nature of the relationship - and how and when it can be terminated - are negotiated and reflected in an agreement.

Another issue is competition for funds - no organization is going to want to sponsor another if it is competing for money from the same funders. But sometimes, the combination of programs enables the already existing nonprofit to have access to more/different money, so it can be a win-win.

These arrangements are not necessarily the only way - or even the best way - to go. And sometimes even if you are willing to do it, you cannot find a group to partner with. But we recommend exploring these arrangements before starting a separate new nonprofit for a number of reasons:

- there are an enormous number of nonprofits in the community, and there is only so much money to go around
- most grantmaking institutions and many individuals will not fund start-ups; they prefer to give money to established organizations with track records
- concerns about duplication of services
- not a good use of community resources from the perspective of available people to sit on boards, administrative burdens and other time and energy involved with running a nonprofit

But of course the \$64,000 question is: Do you know of an organization that is willing to be your FS? Our challenge here has been to identify organizations in the area that are willing to be FSs for other new groups. You do want to find a group with a compatible mission, that is strong financially, and has somewhat sophisticated fiscal tracking capabilities. If you do not have anyone in mind, we recommend that you check out TSNE MissionWorks (formerly Third Sector New England), a very large nonprofit based in Boston that has an entire program devoted to

providing FS services to new organizations. TSNE will act as an "incubator" for new groups, and will provide financial and other support services. TSNE's web site is <http://www.tsne.org/>. Also check out New Venture Fund www.newventurefund.org.

You may be able to find other possible sponsors through this directory: https://fiscalsponsordirectory.org/?page_id=1768 Note – it is not necessary for your FS to be located in the same state as you.

And finally, just FYI, here is a sample resolution to be adopted by the fiscal sponsor's Board:

RESOLVED: That the Board finds that activities of XXX, as set forth in the description attached to these minutes (the "Project"), are consistent with and in furtherance of the Corporation's charitable mission. The Board therefore has determined that the Corporation should act as a fiscal sponsor for the Project, subject to the terms and conditions of a Fiscal Sponsorship Agreement to be executed by the parties.

June 22, 2022