Fiscal Sponsorship: A 360 Degree Perspective

March, 2014

TRUST for CONSERVATION INNOVATION

TRUST for CONSERVATION INNOVATION

Table of Contents

TRUST for CONSERVATION INNOVATION

Introduction

When the Trust for Conservation Innovation (TCI) published its first white paper on fiscal sponsorship more than ten years ago, this streamlined approach to supporting nonprofit projects was still a nascent part of the nonprofit landscape. Now, although fiscal sponsorship is an established and widely-supported part of the nonprofit ecosystem, little literature exists that profiles the advantages of fiscal sponsorship as an alternative to nonprofit incorporation.

The goal of this white paper is threefold: 1) to complement TCI's original publication and contribute to the current body of literature on fiscal sponsorship,[1] (2) to communicate the value that a good fiscal sponsor can provide to social impact projects, and 3) to highlight the evolution of fiscal sponsorship best practices over the past decade.

Executive Summary

A fiscal sponsor is a nonprofit organization that provides fiduciary oversight, financial management, and other administrative services to help build the capacity of charitable projects. By partnering with a fiscal sponsor, projects can seek and receive tax-exempt contributions and grant support without delay, bypassing the costly, burdensome and lengthy process of creating a separate free-standing organization with its own infrastructure. Since the fiscal sponsor is already an operating nonprofit organization with IRS tax-exempt status, the fiscal sponsor's Board of Directors can immediately provide fiduciary oversight, while the fiscal sponsor's staff manages contributions and supports general project operations. The ability to rely on this existing infrastructure and administrative backbone allows project leaders to keep costs low while focusing on vision, mission and generating high-quality programs and outcomes.

Organizations may act exclusively as fiscal sponsors, or provide fiscal sponsorship services as part of a portfolio of other service offerings. Some

TRUST for
CONSERVATION INNOVATION

fiscal sponsors only accept projects that are focused on a specific sub-sector (e.g., environmental conservation, performing arts, public health); others may exclusively serve a specific geographic area (e.g., a local community or region). Regardless of the types of projects they target, many fiscal sponsors support two common structural models (Comprehensive and Pre-Approved Grant) which differ in several ways, including how funds are spent for the benefit of the project, who bears legal liability for the project's activities, and who owns the intellectual property of the project.

The most advantageous time for projects to approach a fiscal sponsor is when they have a program plan and viable funding options, but before soliciting for donations. As they go through the application and selection process, projects will benefit from comparing each sponsor's cost, menu of services, and philosophy of service delivery. Most importantly, the relationship between the project and the fiscal sponsors must be a good "fit."

Although some projects seek out fiscal sponsorship as a way tojump start their work on the road to becoming an independent nonprofit, many projects choose to maintain a long-term partnership with their fiscal sponsors, and there are advantages to both options. Newly conceived or "start-up" projects can benefit from the immediate ability to accept tax-exempt funds under the umbrellaof a fiscal sponsor so that programs can be developed and get underway more quickly. Projects of all sizes and stages of development can continue to benefit from the efficiency and cost-savings that can result from having an administrative backbonewithin a larger organization. On the other hand, complex projects in need of increased governance might prefer to go through the process of incorporating independently.

Because fiscal sponsors generally charge a percentage of each project's total revenue for their services, fees also increase incrementally as a project grows, expands its fundraising efforts, and becomes more complex. For projects that have smaller operating budgets, fiscal sponsorship is generally a more efficient and cost-effective use of the project's funds. For projects with larger budgets,

project leadership should evaluate the most cost-effective alternative, while also considering other qualitative trade-offs like delays in fundraising due to a lengthy IRS application process, dilution of the project leadership's focus on programs, and the risks and responsibilities associated with full fiduciary responsibility and legal liability.

Over the past decade, eight trends have emerged in the field of fiscal sponsorship:

1. **Greater awareness:** While not yet commonplace, the term "fiscal sponsorship" is more widely recognized and understood than ever before.
2. **Flexible partnership:** By supporting projects in myriad ways, fiscal sponsors can effectively serve as partners at all stages of a project's development.
3. **Professionalization of services:** The services provided by fiscal sponsors have become increasingly professional and structured, lending consistency and accountability across the sector.
4. **Expanded use of technology:** Continuing advances in technology have allowed fiscal sponsors to become more efficient, transparent, and connected.
5. **Long-term partnerships:** A trend toward long-term partnerships between sponsors and charitable organizations has moved fiscal sponsors beyond an early incubator role to an expanded role as a partner at all stages in organizations' development.
6. **Ease of networking:** Project leaders are increasingly leveraging their sponsor's connections to funders as well as to other projects in their field.

TRUST for
CONSERVATION INNOVATION

7. **Stamp of credibility:** The perception of fiscal sponsorship has evolved and now lends weight and credibility to a new project.

8. **Orientation toward growth:** Demand for fiscal sponsorship continues to grow alongside the growth of the nonprofit sector.

In sum, the fiscal sponsorship sub-sector is both maturing and growing. Project leaders, alongside their funders, are discoveringand reaping the advantages of this cost-effective and efficient model for accelerating social impact.

Fiscal Sponsorship Defined

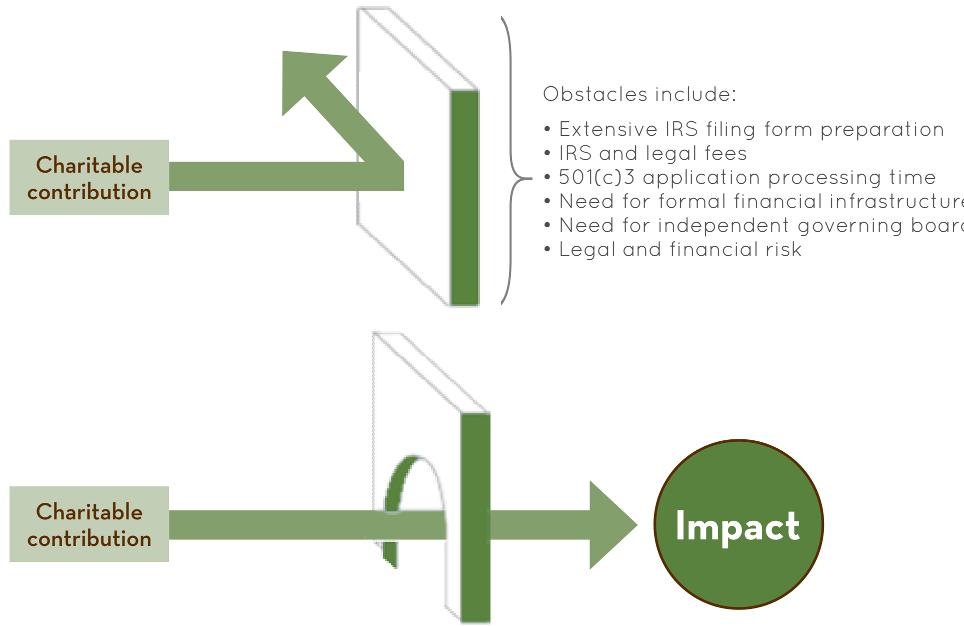
What is fiscal sponsorship?

A fiscal sponsor is a nonprofit organization that provides fiduciary services, including governance, funds management and other administrative "backbone" supports to projects with social impact missions. More technically, fiscal sponsorship refers to a legal arrangement in which one entity agrees to accept and administer funds for another entity with a parallel mission. Due to the complex compliance requirements for a charitable organization to receive tax-exempt contributions, this fee-based contractual agreement is particularly useful in the nonprofit sector. In the United States, most charitable contributions can only be recognized as tax-deductible when they are received by charitable projects designated as have nonprofit tax-exempt 501(c)3 status by the IRS. By partnering with a fiscal sponsor, a charitable project can seek and receive tax-exempt contributions right away without having to establish an new independent organizational infrastructure or apply for 501(c)3 status.

TRUST for CONSERVATION INNOVATION

EXHIBIT 1

Having to establish an independent 501(c)3 nonprofit can block early charitable impact; fiscal sponsors help overcome this barrier

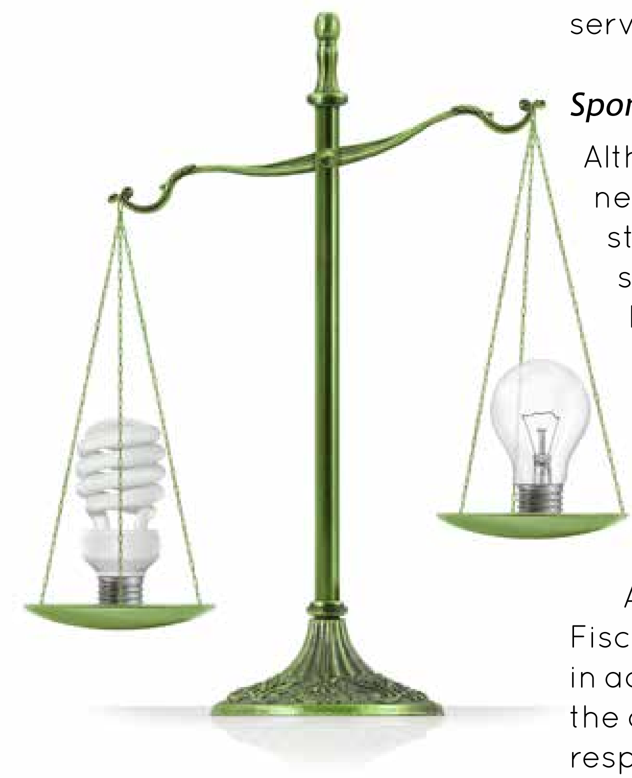


Because obtaining official 501(c)3 designation usually involves incorporating a business, filing multiple IRS forms, documenting the project's legal and financial status, and paying fees to local, state and federal municipalities, the application process can be lengthy, expensive, and impractical. As shown in Exhibit 1, fiscal sponsorship allows a social impact project to bypass this burdensome process and immediately obtain the benefits of 501(c)3 status by operating under the umbrella of a sponsor. Instead of giving directly to the project, donors and foundations instead send funds to the fiscal sponsor, which then administers them on behalf of the project. In addition to accepting and acknowledging tax-

TRUST for
CONSERVATION INNOVATION

exempt donations, fiscal sponsors also provide fiduciary oversight, legal and financial guidance, and audit compliance. Most sponsors also provide related services such as payroll management and insurance.

Sponsorship has three primary advantages for projects: (1) cost-effectiveness, (2) efficiency, and (3) lowered risk. First, a fiscal sponsor gives projects the ability to quickly leverage a common administrative backbone to keep costs low. Second, by tapping into the specialized administrative support services of the fiscal sponsor, project leaders can efficiently focus their time and resources on program activities and outcomes. Third, the fiscal sponsor is an already-established organization with an experienced governing Board of Directors serving as fiduciaries with risk management and compliance processes in place.



Sponsors differentiated

Although fiscal sponsorship has been in use for decades, it is still a relative newcomer as an option for projects, and some confusion around the concept still persists. For example, some people may mistakenly consider fiscal sponsors to be "conduits," or pass-through agencies for tax-exempt dollars. Fiscal sponsorship is not a conduit arrangement because the fiscal sponsor does not simply receive funds and then hand them over to someone else. Instead, the sponsor receives and distributes the funds on behalf of a project with a charitable purpose and bears legal responsibility for ensuring that funds are used for their intended purpose. It should be noted that conduit arrangements are expressly prohibited by the IRS and considered tax evasion by federal law.

Another misconception is confusing "fiscal sponsorship" with "fiscal agency." Fiscal sponsors should not be considered "fiscal agents" for several reasons. First, in accordance with the legal definition of the term "agent," the project is actually the agent of the fiscal sponsor because the sponsor is the entity that takes legal responsibility.[2] In contrast, agency implies a transactional relationship limited to bookkeeping services and legal responsibility, but fiscal sponsorship has a much broader scope. Beyond providing a financial and administrative backbone, fiduciary oversight of fund management is an essential aspect of sponsorship.[3] Finally, this oversight also includes the governance and management expertise of a fully-functioning, seasoned nonprofit Board and staff.

The Evolving Landscape of Fiscal Sponsorship

Scope and mission focus

Many varieties of fiscal sponsors exist with a variety of different models of service delivery. Some organizations act as fiscal sponsors exclusively and are known as "pure" fiscal sponsors. Other organizations provide fiscal sponsorship services alongside other service offerings. Some projects find that it is advantageous to select fiscal sponsors that are purely dedicated to fiscal sponsorship. For example, a dedicated fiscal sponsor (in contrast to an organization that has a multiplicity of missions) may be a more efficient and responsive partner because of its laser-like focus and in-depth knowledge of fiscal sponsorship, both at strategic and tactical, day-to-day levels. Furthermore, a dedicated fiscal sponsor can help projects avoid programmatic or funding conflicts that could occur within broader umbrella organizations.

A second differentiator between fiscal sponsors is mission focus. Some fiscal sponsors are general in nature, accepting projects with a broad variety of public benefit goals. Others are focused on one sector or industry, such as environmental conservation, performing arts, or public health. Sponsors also may have limited geographic reach (e.g. local or regional focus); others may be global in scope. Each project will have different needs from a fiscal sponsor, but most project leaders strongly recommend electing to work with a sponsor whose focus is closely aligned with the project's mission. Mission alignment can make for better relationships between the project and the sponsor as well as allow the project to fully take advantage of the sponsor's industry-specific connections for program consultation, networking and fundraising.

TRUST for
CONSERVATION INNOVATION

Structural models

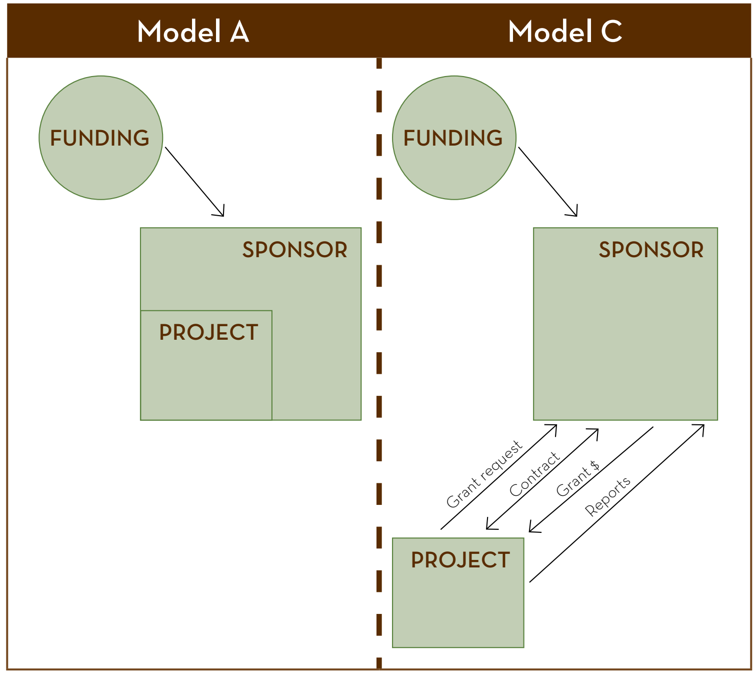
Although there are several structures fiscal sponsors can take—attorney and nonprofit expert Greg Colvin lays out six models in his text on fiscal sponsorship in which the sponsor has varying degrees of control over the project,[4] two structural models are most prevalent.[5]

“Comprehensive” or Model A Fiscal Sponsorship, as dubbed by Colvin, is the most common structure.[6] Under this model, the project and the sponsor become a single legal entity with the sponsor acting as the umbrella organization that permits the project to receive tax-exempt donations. The sponsor has complete control over the project: the project’s leaders and staff become employees of the sponsor, and tax-exempt donations are made payable to the sponsor, who then has the responsibility of administering them. The sponsor also bears full legal liability for the actions of the project. The sponsor charges a fee, a small percentage of the project’s total annual revenue, in exchange for administering financial services, taking on legal responsibility and providing other benefits.

“Pre-Approved Grant” or Model C Fiscal Sponsorship is the second most common fiscal sponsorship model. Under this model, the project does not belong to the sponsor and the two do not merge as a single legal entity. Instead, a grant relationship is established through which the sponsor approves a project with a social impact or public benefit mission closely aligned to its own to become the sponsor’s grantee. The sponsor then accepts tax-exempt donations and subsequently conveys them to the project as grants. In turn, the sponsor requires formal and consistent reporting on grant use by the grantee project to ensure that the funds are being used for the agreed-upon mission, programs and services. In this model, legal liability rests almost fully on the project. However, the project has the benefit of being able to retain ownership rights to anything of tangible or intangible value that might have come from use of grant funds. This aspect of Model C sponsorship is particularly attractive to projects in the arts, as project leads are able to retain the intellectual property rights of their work. As in Model A, the sponsor retains a portion of the funds the project raises as an administrative fee.

EXHIBIT 2[7]

Model A and Model C are the most common fiscal sponsorship structures



Weighing the Benefits of Fiscal Sponsorship for Your Project

There are two alternatives for a project looking to accept tax-exempt donations for charitable purposes. The first option is fiscal sponsorship; fiscal sponsors allow projects to immediately begin operating under a nonprofit umbrella complete with comprehensive bookkeeping, administration, governance and support services. The second option is to incorporate as a stand-alone nonprofit and administer the necessary services independently. The decision to partner with a fiscal sponsor is multi-faceted, and there is no set project size for working

TRUST for CONSERVATION INNOVATION

with a fiscal sponsor. While some fiscal sponsors do specify minimum levels of funding in their sponsorship applications, projects with annual revenue in the millions as well as those with income in the tens of thousands successfully establish and elect to maintain fiscal sponsor partnerships.

The process for deciding between fiscal sponsorship and independent incorporation is far from clear-cut. There are distinct advantages to each and the scales may tip in favor of one structure or the other based on many factors, including a project's development stage, objectives, and revenue streams (see Exhibit 3). At different stages of development, a project's immediate need for tax-exempt donations, capacity for risk management, or need for more direct and guided governance may influence that project's decision. Likewise, a project's desire to focus on the majority of resources on mission-based program operations may be weighed against factors like direct funding eligibility and marketing independence. Additionally, a project's operating budget may help determine the degree of cost savings and efficiency that can be gained from fiscal sponsorship in lieu of independent incorporation. Further detail on these considerations can be found in the following sub-sections.

EXHIBIT 3

The trade-off: advantages from fiscal sponsorship and independence

	Fiscal Sponsorship	Independent Incorporation
Development stage	• Immediate ability to accept tax-exempt donations • Risk-sharing	• Direct oversightand governance
Objective	• Mission focus • Low administrative burden	• Direct funding eligibility • Marketing independence
Revenue stream	• Savings for projects with lower revenue streams	• May be more cost effective for project with higher revenue streams

Stage of development: At what level is sponsorship valuable?

Projects at many different stages of development choose to work with fiscal sponsors. New projects, particularly those with already-interested funders, may seek the immediate ability to accept tax-exempt funds under a fiscal sponsor. Both start-up and mature projects without specific administrative expertise or resources may choose to partner with fiscal sponsors to complement and enhance their program leadership with cost-effective and efficient financial and administrative services. Projects also may choose fiscal sponsorship because it simplifies risk management in areas like liability insurance, audit compliance, and tax reporting. The fiscal sponsor also provides fiduciary oversight rather than hands-on program management, although many projects choose to form an Advisory Council to provide additional programmatic oversight. If a project feels that increased governance would be beneficial or if a project's primary funders recommend increased governance, the project may prefer to incorporate independently, as a full-time formal Board of Directors may be warranted.

Primary objective: What do projects want out of fiscal sponsorship?

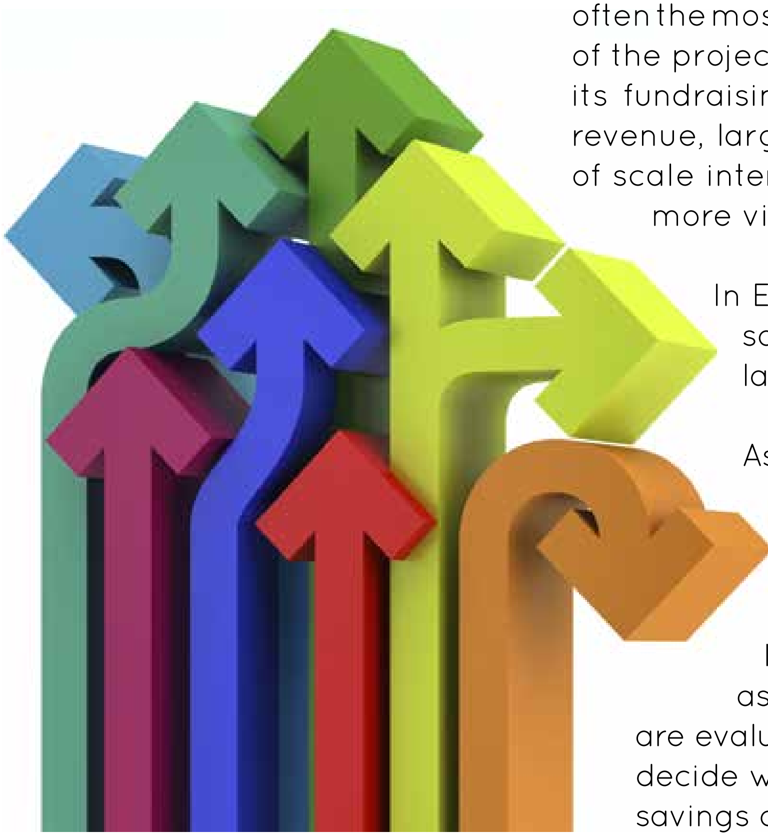
While the precise selling point of fiscal sponsorship varies from project to project, the leader of a charitable organization often wants to realize one of two goals from working with a fiscal sponsor : 1) jumpstarting or cultivating an emerging initiative with the expectation to spin-off into an independent nonprofit, or 2) beginning a long-term partnership. Often, the project begins the relationship with the first motivation but soon realizes the convenience of working with a fiscal sponsor. While some projects do hope to one day spin-off because they consider independence to be a measure of success or because they want to take more direct oversight of their finances, most projects do not set an expiration date on their relationship with their fiscal sponsor. If a sponsored project does ultimately decide to incorporate as a free-standing nonprofit, the project's existing fiscal sponsor will generally

TRUST for
CONSERVATION INNOVATION

assist them with making strategic decisions about timing and budgeting for costs, as well as provide tactical support during the transition.

Level of funding: When does fiscal sponsorship make financial sense?

Incorporating and operating an independent 501(c)3 nonprofit can present substantial costs for a project. The majority of these costs are fixed at a high level regardless of a project's available funding and can constitute a considerable burden for most projects. In these cases, sharing nonprofit status and administrative costs with other projects through the use of a fiscal sponsor is often the most cost-effective option. Because fiscal sponsors charge a percentage of the project's total revenue for their services, as a project grows and expands its fundraising efforts, fees will increase proportionately. At a certain level of revenue, large projects may find that they have built up sufficient economies of scale internally to manage their endeavor alone, rendering independence a more viable economic alternative.

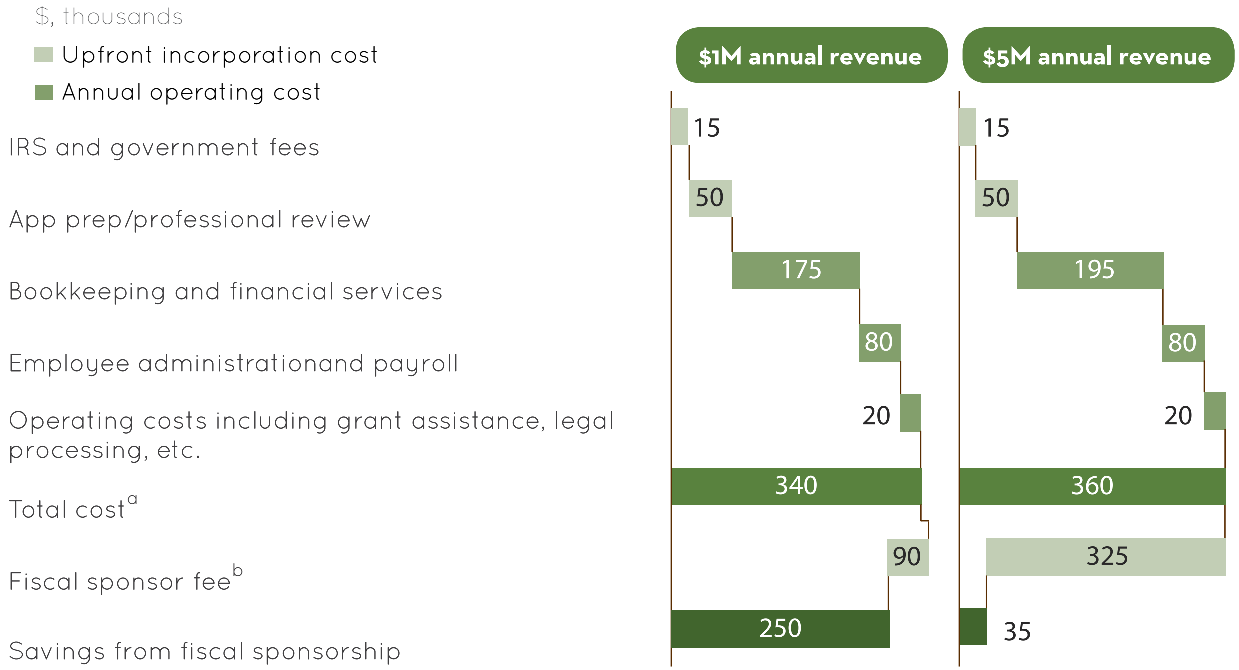


In Exhibit 4, below, we've provided a comparison of the potential cost savings for a smaller project (with revenue of $1 million) versus a larger project (with revenue of $5 million).

As you can see, for most projects, fiscal sponsorship represents the most efficient use of donor funds. Yet project leadership should always evaluate the most cost-effective alternative, while also considering other qualitative trade-offs like delays in fundraising due to a lengthy IRS application process, dilution of the project leadership's focus on programs, and the risks and responsibilities associated with full fiduciary responsibility and legal liability. Once these are evaluated alongside a project's other unique priorities, each project must decide whether the benefits of having independence outweigh the monetary savings and other benefits gained from fiscal sponsorship. For example, even a project with an annual revenue stream greater than $5M, might choose to continue with fiscal sponsorship because the benefits of being able to focus on program development rather than administrative duties are more valuable than operational savings from independence. Regardless, comparing the costs of fiscal sponsorship and independent operation will help provide a framework for projects to make informed decisions when weighing these options.

EXHIBIT 4

Independent incorporation presents substantial upfront and annual costs



a. Nonprofit operating costs adapted from California Environmental Associates (CEA) nonprofit operation analysis.
b. Assumes tiered fee structure of 9% for projects raising $1M in annual revenue and 6.5% for projects with $5M in revenue.

Evaluating costs

The costs faced by an independent nonprofit can be broken out into two major areas: incorporation and operation. Incorporation costs are borne during the first year of operation while a project is seeking out nonprofit status from the IRS.

TRUST for
CONSERVATION INNOVATION

These costs are driven by two levers: 1) IRS and government fees, which include payments to the local, state and federal government for incorporation, tax-exempt status and registration, and 2) application preparation costs, which include the processing and filing of the legal and financial documentation required by the IRS. Operating costs represent annual administrative and other costs that support a project's mission-based programs and services. There are three major drivers of operating costs: 1) bookkeeping, accounting and banking costs, 2) human resource administration, which include employee onboarding, payroll and benefits administration, and managing contracted professional services and 3) additional support services, which include services such as project growth and development advisory support, grant review and administration, fundraising support, legal advice and board oversight. These costs are illustrated in Exhibit 4. In this example, the project with annual revenue of about $1 million is reaping significant cost savings from fiscal sponsorship while the project with annual revenue of about $5 million is approaching a point where costs are close to break even.

It should be noted that Exhibit 4 does not include three additional factors that could further increase costs of independent operation:1) potential delay of fundraising or program launch due to delays in IRS processing time, 2) potential dilution of the project leadership's focus on the project's mission, and 3) potential exposure to additional financial risk and legal liability. These are discussed in more detail below.

Over the past several years, the IRS approval backlog for applications has lengthened, with many applicants waiting up to 16 months just to be assigned an IRS agent for review.[8] During this lag, a project cannot provide potential funders with any guarantee that their donations will be tax-exempt, which likely means significantly reduced funding, delays in program launch and executions, and a decreased opportunity to accomplish mission-based outcomes.

When a project leader must provide direct oversight of bookkeeping, administrative, governance and support service tasks, that leader's time and

attention to mission-based programs is, of necessity, diluted. Whether the activity is Board meeting support, reviewing budgets and financial statements, grant administration, working with auditors, or simply completing new hire paperwork for an incoming employee—all of these tasks can place significant time constraints on nonprofit leaders, making it impossible to keep program growth and development front and center.

Finally, operating an independent nonprofit exposes a charitable project to substantial risk. As stand-alone organizations, projects must take on a greater number of responsibilities in-house, growing their internal staff accordingly. A larger employee base can reduce operational flexibility and expose the project to the risk of having to downsize in the event of economic contraction and then, during an upswing, having to re-hire and re-train employees. From a financial perspective, bearing the full overhead cost during these cyclical times rather than relying on the flexible backbone of a fiscal sponsor whose pricing adjusts as revenue changes can constitute a sizable opportunity cost. In addition, as stand-alone operations, projects are subject to full legal liability and expected to understand and comply in full with all of the stipulations of the Internal Revenue code as it applies to nonprofits. For example, if the project's use of funds is deemed outside the appropriate scope, the project may face significant tax liability, forcible suspension of fundraising and program activity and, in some cases, outright revocation of its exempt status. When all of these factors are taken into account in estimating the cost of independent operation, the true break-even point is likely much higher than $5 million.

Selecting the Right Fiscal Sponsor

When is the right time to approach a fiscal sponsor?

The best time for a project to approach a fiscal sponsor is after having developed a functional program plan and after having researched viable funding options but before soliciting funders and foundations for donations.

TRUST for CONSERVATION INNOVATION

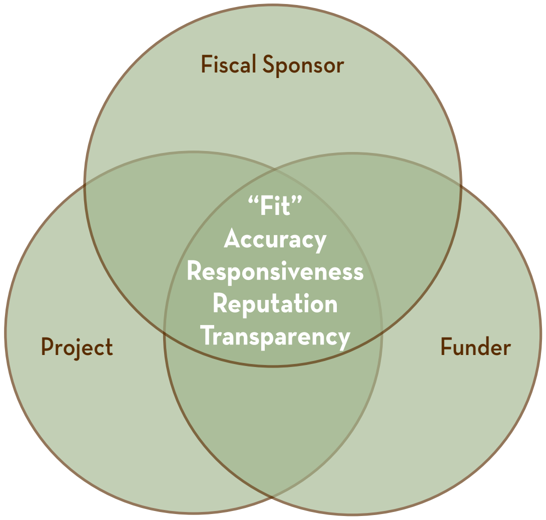
Having a clear mission, advisory board and action plan in place will expedite your application to work with a fiscal sponsor. In turn, having a relationship with an established fiscal sponsor prior to opening a conversation with a funding source will demonstrate to the funder that the infrastructure is already in place to put the funding to use immediately, which will lend credibility to the project effort and streamline the fundraising process.

What should you look for?

When a project first seeks partnership with a fiscal sponsor, the primary criteria for selecting a sponsoring organization are often the sponsor's fee rate and how quickly approval can be granted. The importance of these considerations is clear, but when project leaders reflect in retrospect, their evaluation is much more qualitative. Projects find that qualities such as responsiveness and transparency are important foundations of positive and comfortable relationships with a fiscal sponsor. Likewise, since fiscal sponsorship requires shared control, both projects and fiscal sponsors consistently recognize a climate of mutual trust as critical for successful partnerships. In fact, projects report that trust far outweighs slightly higher fees from a responsible and accountable sponsor, and they encourage other projects to keep the qualitative aspects of their partnership with a fiscal sponsor top of mind.

When projects, fiscal sponsors and funders are asked to consider which qualities define good fiscal sponsorship, there is a high degree of overlap between the responses from all three stakeholders. Being a good "fit" with respect to mission-alignment, the right mix of services and a positive working relationship are cited by 80% of respondents as a key factor in selecting the right fiscal sponsor. Accuracy and responsiveness in administrative and oversight tasks are also a consistent point of emphasis. Additional qualities highlighted include having a good industry reputation and demonstrating legal rigor, both essential precursors of strong fiduciary oversight. Finally, transparency in administrative processes is a characteristic that is broadly cited, especially by fiscal sponsors, as necessary for a successful partnership. The qualities that are top of mind for all three stakeholders are outlined in Exhibit 5.

EXHIBIT 5
What qualities define a good fiscal sponsor?



Setting up your project for success

When seeking fiscal sponsorship, it is essential to make sure that you are informed and have done your own research. In rare cases, such as the turn of events surrounding the collapse of southern California-based fiscal sponsor International Humanities Center (IHC) in 2012, organizations posing as capable fiscal sponsors may violate charitable trust doctrine, mismanage their projects'

TRUST for CONSERVATION INNOVATION

funds and shut down, losing all their projects' donations. The fiscal sponsorship community was outraged at this news and responded by coming together to encourage projects to demand transparency from their fiscal sponsors.[9] A truly accountable fiscal sponsor understands its duty to administer project funding correctly and will be willing and eager to provide projects with a high degree of visibility into the management and accounting of their funds.

As a project leader, allocating time for due diligence and making the right fiscal sponsorship choice is particularly important because switching costs can be high. Barriers to moving to another fiscal sponsor include potential difficulties in transferring employees, benefits, and insurance, in redeveloping knowledge and grant support, and in rebuilding a whole new relationship with the new fiscal sponsor, which will take time.

> *"Ten years ago, fiscal sponsorship was not even a term people had heard of"*
>
> –Fiscal sponsor

Perspectives

Eight emerging fiscal sponsorship trends

The field of fiscal sponsorship has experienced substantial growth and evolution over the past decade. Emerging trends relate to the industry and the services it provides, to the perception of value in fiscal sponsorship, and to the industry's future outlook.

- *Greater awareness* -

As recently as a decade ago, there was no standard terminology to refer to the practice of sponsoring charitable projects under the umbrella of a larger 501c3 organization. Today accurate terminology has become widespread, allowing fiscal sponsors and projects to describe various sponsorship arrangements in great detail. As a result, the public now has a much greater awareness of the concept of fiscal sponsorship. Having a common language has enabled widespread communication about the value fiscal sponsorship brings to nonprofit projects, foundations, individual donors, regulators and the public at large.

TRUST for CONSERVATION INNOVATION

"I don't know whether my relationship with my fiscal sponsor will last two years or ten, but I realize that I have a true partnership in which my fiscal sponsor understands my needs and my concerns."

–Project leader

"Accurate financials and timely administrative management are no longer an 'ask'; they are an expectation, and [fiscal sponsors] are ready to deliver."

–Fiscal sponsor

www.t4ci.org

- *Flexible partnership* -

In the early days of fiscal sponsorship, sponsoring organizations were focused on developing their menus of service; today, fiscal sponsors recognize that each project has unique needs and may find value and thus utilize a variety of different services. By custom-tailoring services to support diverse project needs, fiscal sponsors are better poised to serve as partners at all stages of a project's development. Responsive and flexible partnership also creates goodwill with projects while supporting innovative project models with valuable contributions to the nonprofit sector.

- *Professionalization of services* -

As fiscal sponsorship has evolved from informal structures into established institutions, the services provided by fiscal sponsors have become increasingly professional and structured. Since the inception of the National Network of Fiscal Sponsors in 2003, formal guiding documents for fiscal sponsors and fiscally-sponsored projects have been developed, lending consistency and accountability to the sub-sector. Project leaders cite uniformity in financial statements and reports as well as the introduction of standardized forms as some of the most impactful results of this drive toward professionalization.

- *Expanded use of technology* -

In recent years, the use of technology has become more widespread in the fiscal sponsorship sphere. The use of paperless record-keeping has allowed fiscal sponsors to take on a greater number of projects than before and share financial information with their projects in real time. The use of web-based tools has expanded the reach of fiscal sponsors, allowing them to serve and communicate with projects working in even the most remote global locations. Most fiscal sponsors also have the capacity for projects to solicit online donations and use social media and crowdfunding to broaden awareness, and support for, their work. Similarly, projects can link their own web presence to the fiscal sponsor and better market their efforts

TRUST for CONSERVATION INNOVATION

> *"Advances in technology, including video conferencing, webinars, and cloud-based data storage, enable us to be 'close' to our projects all over the world."*
>
> –Fiscal sponsor

> *"Fiscal sponsorship has provided me with a runway to decide what I want my Board of Directors to look like and make the connections I need to build it effectively."*
>
> –Project leader

and connect with a greater number of potentially interested donors across knowledge, language and geographic barriers.

- *Long-term partnerships* -

Over the past decade, a trend toward long-term partnerships between sponsors and charitable organizations has emerged. Ten years ago, the focus of fiscal sponsorship was serving as a "stepping stone" resource, where new projects would sign on with a sponsor pending their eventual incorporation as independent nonprofits. Today, fiscal sponsors continue to fill the "stepping stone" role, but they also increasingly act as long-term partners. Many larger and mature projects recognize tremendous long-term financial and programmatic returns on investment by remaining in partnership with their sponsors. The most cited reason is that fiscal sponsorship allows project leaders to play to their strengths and focus on the mission of their organization rather than having to spend valuable time on administrative duties.

- *Ease of networking* -

Project leaders are increasingly interested in the networking capabilities working with a fiscal sponsor provides. They are looking to leverage the sponsor's connections to funders as well as learn from other projects in their field. Working with a fiscal sponsor can introduce project leadership to individuals positioned to serve as thought partners and mentors over the course of the charitable project's development. In some cases, fiscal sponsors even provide shared office or meeting space to facilitate idea exchange and leverage synergies across sponsored projects. As partnerships and networks deepen, there is mutual benefits for projects, sponsors, funders, and the entire nonprofit sector.

- *Stamp of credibility* -

Project leaders, funders and fiscal sponsors recognize that fiscal sponsorship has immense potential to lend weight and credibility to an emerging initiative.

TRUST for
CONSERVATION INNOVATION

> *"The fiscal sponsor's brand is a guarantee that balances out the risk of supporting a new idea or experimental initiative and presents a preferable alternative to committing to a brand new organization."*
>
> *–Foundation*

> *"We want to be able to help any qualified group who wants to start a charity...we plan to grow while enhancing the viability of our current projects."*
>
> –Fiscal sponsor

A decade ago, having a fiscal sponsor might have been a cause for concern, leaving funders wondering what flaw was preventing the project from operating independently. Today, fiscal sponsorship is usually considered a stamp of credibility for start-up mission-focused endeavors. As awareness of fiscal sponsorship has grown and fiscal sponsors have established track records of success, a fiscal sponsor partnership now signals that the project has a secure operational backbone from which to launch successful programs.

- ***Orientation toward growth*** -

Demand for fiscal sponsorship from funders and projects is increasing as organizations recognize the value a fiscal sponsor can offer in helping them broaden their reach and scope of impact. Fiscal sponsors have more potential projects than they have capacity to host and are therefore investigating methods to grow their organizations in order to accommodate a greater number of projects while maintaining a high level of services. Opportunities may exist for new sponsors to enter the sector as well.

Summary and Conclusion

The role fiscal sponsors play in the nonprofit sector is evolving. Whereas the concept of fiscal sponsorship was once hazy and indefinite, clear rules, regulations and expectations now exist for fiscal sponsors. Leaders of mission-focused charitable projects are seeking fiscal sponsorship, looking for cultural fit, mission alignment, accuracy, reputation and transparency. Just as expectations have increased, so have the services fiscal sponsors provide. These services are increasingly marked by professionalization, innovative use of technology and the availability of networking opportunities. Most importantly, not only does fiscal sponsorship offer a simple operational alternative to independent incorporation, it also offers a partnership opportunity through which projects can increase the impact of their funding by reducing administrative costs. The decision to partner with a fiscal sponsor depends on various considerations including the project's stage

TRUST for
CONSERVATION INNOVATION

of development, primary objectives and funding scheme. However, outlining the tangible benefits from primary fiscal sponsorship services as well as the less tangible, secondary benefits such as risk-mitigation and convenience reveals that fiscal sponsorship can be efficient for both nascent and mature projects.

In the past decade, fiscal sponsors have adapted to the demands of the nonprofit sphere and have thus grown considerably in scope. As fiscal sponsors become increasingly prevalent, their ability to respond to changes in the economic, legal and social climate will remain essential, as will the need for fiscal sponsors, funders and nonprofit projects to communicate and collaborate toward the next level of innovation.

TRUST for
CONSERVATION INNOVATION

Acknowledgments

Several organizations joined the Trust for Conservation Innovation to make valuable contributions to this effort. This study would not have been possible without the participation of Adler & Colvin, California Environmental Associates (CEA), Chemical Strategies Partnership, Community Initiatives, Compton Foundation, Conservation and Community Investment Forum (CCIF), Earth Island Institute, Global Cool Cities Alliance, Kitchen Table Advisors, McKinsey & Company, the Mulago Foundation, The Ocean Project, the Rainer Arnhold Fellowship Program, Rockefeller Philanthropy Advisors, United Charitable Programs, the Upper Amazon Conservancy and the 11th Hour Project of the Schmidt Family Foundation.

The Trust for Conservation Innovation gratefully acknowledges Giulia Siccardo from McKinsey & Company for her contributions to the research, interviews, and data analysis presented in this report. We also thank the more than twenty project leaders, fiscal sponsors, funders, and industry experts who provided us with input, feedback, and thought leadership.

The perspectives highlighted in this report represent a non-exhaustive review of the fiscal sponsorship landscape. Organizations were chosen to include a broad cross-section of operating models, geographies, project portfolios and services. All information was volunteered and has not been independently verified.

For More Information, Contact:
Trust for Conservation Innovation
150 Post Street, Suite 342
San Francisco, California 94108
Phone: 415-421-3774
Email: info@t4ci.org

TRUST for
CONSERVATION INNOVATION

Notes and Citations

[1]These include the following in addition to publications cited specifically elsewhere in the paper:NNFS (2010). *Guidelines for Comprehensive Fiscal Sponsorship.* National Network of Fiscal Sponsors.NNFS, (2010). *Guidelines for Pre-Approved Grant Relationship Fiscal Sponsorship.* National Network of Fiscal Sponsors.Spack, Jonathan, (2005). *How Fiscal Sponsorship Nurtures Nonprofits.* Third Sector New England.Tides Foundation (2006). *Fiscal Sponsorship Field Scan: Understanding Current Needs and Practices,* Tides.

[2]Beene, Melanie, (2010). *Fiscal Sponsorship Is Maturing as a Field.* Seattle, Grantmakers in the Arts Reader, Vol 21. No 3.

[3]Colvin, Gregory, (1993,2000). *Fiscal Sponsorship: 6 Ways to Do It Right.* San Francisco, Study Center Press.

[4]Ibid.

[5]Most recently, a new fiscal sponsor structure has emerged through Notice 2012-52 in which fiscal sponsors may take limited liability companies (LLCs) under their 501(c)3 umbrella under certain conditions. This seventh structure is known as "Model L." For further detail, see:Chiodini, Steven R, (2012). *IRS issues guidance on the deductibility of donations to LLC subsidiaries of section 501(c)3 organizations.* San Francisco, Adler & Colvin: Nonprofit Law Matters.

[6]Sattely, Joshua Esq., (2009). *A White Paper on Comprehensive Fiscal Sponsorship.* Third Sector New England.

[7]Adapted from Colvin, Gregory, (1993,2000). *Fiscal Sponsorship: 6 Ways to Do It Right.* San Francisco, Study Center Press.

[8]As of September, 2013, the IRS indicated that it was still assigning applications received in May, 2012. Internal Revenue Service (2013). *Where is My Exemption Application?* See also, Hammerschmidt, Paul. Nonprofit Quarterly (October 2013), *My Application for Tax Exemption Was Submitted to the IRS. Why Is It Taking So Long?*

[9]Colvin, Greg. *"Brushes with the Law."* (2012). National Network of Fiscal Sponsors 2012 Conference. Los Angeles, NNFS.