

# **National Network of Fiscal Sponsors**

## **Guidelines for Pre-Approved Grant Relationship Fiscal Sponsorship**



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### Introduction

Fiscal sponsorship has evolved as an effective and efficient mode of starting new nonprofits, seeding social movements and delivering public services. Fiscal sponsorship means a nonprofit organization (the “fiscal sponsor”) agrees to provide administrative services and oversight to, and assume limited legal and financial responsibility for, the activities of groups or individuals engaged in work that furthers the fiscal sponsor’s mission.

Fiscal sponsorship confers significant potential benefits on the leaders of sponsored projects and the issues those projects address, permitting the efficient testing of ideas for addressing social and civic issues in a supportive, collegial atmosphere. They allow new community ventures to more quickly and efficiently get off the ground, without the delay or bureaucratic red-tape associated with incorporating and filing federal and state applications for tax exemptions.

Fiscal sponsors are typically organized as tax-exempt, charitable ventures themselves, and permit project leaders – from the moment the sponsor agrees to accept the project – to legally solicit and benefit from charitable contributions from individuals and grants from private foundations and other funding institutions. Fiscal sponsors place program implementation responsibility in the hands of project leaders, and do not involve themselves in the programmatic decision-making process of the sponsored groups.

Even as they hold in common the purpose of advancing the common good, fiscal sponsors express a range of goals that animate their mission. These goals include:

- Testing and accelerating public interest ideas into effective social and civic action;
- Fostering social innovation and entrepreneurship;
- Advancing the emergence of able, creative community leadership;
- Promoting well-managed solutions and fiscal efficiency in addressing social problems or challenges;
- Transferring the knowledge, skills and habits of excellent organizational operation; and,
- Strengthening the presence, voice and effectiveness of civil society.

Many nonprofits engage in fiscal sponsorship activity on an occasional basis. This practice carries certain inherent risks. Nonprofits should engage in fiscal sponsorship only if their executive leadership and boards of directors are fully aware of the obligations and liabilities they legally assume as fiscal sponsors.

The purpose of these guidelines is to raise awareness and broaden the understanding of fiscal sponsorship and to promulgate standards of best practice for the field in order to improve the practice of fiscal sponsorship and increase its value to society. These are best practices, not just for fiscal sponsorship, but reflect the highest operational standards for any organization operating in the public interest.

This document has evolved over six years of meetings of the steering committee of the National Network of Fiscal Sponsors (NNFS) with extensive input from the field. Its development was led by the work of a subgroup of fiscal sponsors who primarily or exclusively practice this model of fiscal sponsorship, many of whom are arts organizations. The NNFS has produced two sets of guidelines; one for each of the most frequently used forms of fiscal sponsorship as described in *Fiscal Sponsorship, 6 Ways To Do It Right*, Study Center Press (1993, 2005) by Gregory L. Colvin.

### **Pre-Approved Grant Relationship Fiscal Sponsorship Distinctions**

In a Pre-approved grant relationship Sponsorship Relationship, the fiscally sponsored project does not become a program belonging to the sponsor (as is the case with Comprehensive Sponsorship), but is a separate entity responsible for managing its own tax reporting and liability issues. In addition, the sponsor does not necessarily maintain ownership of any part of the results of the project's work. Ownership rights should be addressed in the fiscal sponsor agreement and could potentially result in some type of joint ownership. The sponsor simply assures itself that the project will use the grant funds received to accomplish the ends described in the grant proposal.

## **Guidelines and Recommended Best Practices**

### **1. Public Interest Mission and Program Focus**

*The fiscal sponsor expresses a clear mission intended to advance the public interest, and all programs and related activities support that mission.*

#### **Recommended Best Practices**

- A. Written Mission Statement and Active Mission Management. The fiscal sponsor has a written statement of its mission and integrates the intent of the mission into all of its organizational practices and selects projects for sponsorship that relate to its mission and charitable purpose.
- B. Community Stewardship. The fiscal sponsor adheres to the high standards of integrity in acting as a steward (1) for charitable, taxpayer and other funds entrusted to it for the public benefit, and (2) on behalf of the long-term interests of the programmatic cause, geographic region or demographic population at the center of its mission.
- C. Public Benefit Concern. The fiscal sponsor, through its programs, services, staff and decisions, works to promote the benefit of the public.

### **2. Legal, Tax and Regulatory Compliance**

*The fiscal sponsor fulfills all legal, tax and regulatory requirements of philanthropic and charitable nonprofit organizations and complies with the letter and the spirit of all laws.*

#### **Recommended Best Practices**

- A. Compliance with Laws. The fiscal sponsor is knowledgeable about and complies with all applicable federal, state and local laws, routinely informing and educating leaders of sponsored projects about the practical intent and application of such laws.
- B. Nonprofit Incorporation and Bylaws. The fiscal sponsor has incorporated as a nonprofit entity according to the requirements of state and federal law and remains in good standing.
- C. Public Policy Engagement. The fiscal sponsor, when engaging in public policy activities or overseeing public policy activities of its projects, complies with federal, state and local lobbying limitations and reporting requirements and informs its project leaders and staff of such requirements.

### **3. Fiscal Integrity**

*The fiscal sponsor manages all funds, assets and other resources under its direct control with a high degree of responsibility, integrity, transparency and accountability.*

#### **Recommended Best Practices**

- A. Financial Solvency and Resilience. The fiscal sponsor maintains sufficient financial resources to assure continuous, uninterrupted operation.
- B. Annual Budget. The fiscal sponsor prepares an annual administrative operating budget that is reviewed and approved by its board of directors.
- C. Annual Financial Audit. In accordance with state specific and/or federal regulations regarding audit requirements for nonprofit organizations, the fiscal sponsor retains the services of an independent certified public accountancy firm to conduct and present to the board of directors an annual financial audit consistent with Generally Accepted Accounting Principles (GAAP) and available to the public.

- D. Uses of Project Funds and Assets. The fiscal sponsor, with the exception of the agreed-upon administrative overhead charges to sponsored projects, and the exercise of its variance powers, does not expend funds dedicated for project purposes for any other purpose, unless ordered by a court of law or government agency.
- E. Responsibility for Specific Costs. The fiscal sponsor discloses any charges, such as bank fees, or those for fee-for-service activities, for which projects are liable.
- F. Systems for Handling Funds. The fiscal sponsor, for all funds in its care, establishes and maintains sound systems, policies, procedures and internal controls that are based on generally accepted financial and accounting principles and regulations including project expense sign-offs and approvals; written project agreements; and clear, line-item project budgets covered under written agreement elsewhere.
- G. Project Fund Accounting. The fiscal sponsor establishes and maintains the means to account for and report on each of its sponsored project's funds separately, providing regular and timely fund documentation to project leaders for management, stewardship and reporting purposes. The fiscal sponsor maintains the capability of reporting project financial activity at multiple levels of specificity, including down to the level of individual grants.
- H. Project Fund Monitoring. The fiscal sponsor monitors all projects for appropriateness of expenditures and for fiscal solvency and routinely reviews project fund balances down to the level of individual grants.
- I. Investment and Management of Financial Assets. The fiscal sponsor establishes policies and maintains a system for responsible, prudent investment and management of financial assets.

#### **4. Administrative and Operational Integrity**

*The fiscal sponsor manages all administrative duties and responsibilities professionally and with a high degree of integrity and accountability.*

##### **Recommended Best Practices**

- A. Operational Policies and Procedures. The fiscal sponsor maintains clear written operational policies and procedures for the fiscal sponsorship program, orienting all project leaders about their intent and practical implementation.
- B. Sufficiency of Staffing. The fiscal sponsor hires, trains and develops operational staff, management and leadership necessary to operate according to these guidelines.
- C. Sufficiency of Systems. The fiscal sponsor builds, maintains and continually improves financial management, accounting, administrative, reporting, human resources, training, risk management and technical assistance systems in ways that meet these guidelines.
- D. Sufficiency of Employment Protections. The fiscal sponsor extends to its core administrative staff, and strongly encourages in the operation of sponsored projects, reasonable compensation and benefits package, safe and respectful working conditions and aggressive non-discrimination practices.
- E. Compliance with Terms of Grants and Contracts. The fiscal sponsor ensures that projects comply with financial and administrative requirements of grants and government contracts.
- F. Legal Signatory. The fiscal sponsor reviews, approves and signs all grant contracts.

- G. Document Retention. a) The fiscal sponsor retains and protects its financial and personnel records, required minutes of board meetings, and all other documents in accordance with all applicable laws. b) The fiscal sponsor retains and protects financial records pertaining to its fiscally sponsored projects in accordance with all applicable laws.
- H. Grant Relationship. The fiscal sponsor acts as a grantor supporting projects by making a series of grants to the grantee entity conducting the project (i.e., the fiscally sponsored project). Features of a well managed grant relationship include: the grantee's proposal to conduct a specific charitable project; periodic reports from the project back to the fiscal sponsor; an arm's length grant agreement that protects the sponsor from the liabilities of the FSP; clear communications, as needed, to the project's vendors stating that the sponsor is not responsible for the project's liabilities.
- I. Non- Discrimination Policy. The fiscal sponsor has a written non-discrimination policy.

## **5. Board Accountability, Ethical Conduct and Governance**

*The fiscal sponsor's board of directors governs ethically, avoiding conflicts of interest in conducting the affairs of the organization and in carrying out its legal, fiduciary and policy making responsibilities.*

### **Recommended Best Practices**

- A. Code of Ethics/Conduct. The fiscal sponsor's board of directors promulgates standards of ethical conduct for itself and for the entire organization, insuring that managers incorporate them into all organizational practices and, directly or by reference, into all written personnel policies, operational manuals, employment agreements and employee handbooks.
- B. Board Compensation-Setting Responsibility. The fiscal sponsor's board of directors sets the salaries of and retains sole authority over the hiring, evaluation and termination of the fiscal sponsor's chief executive officer.
- C. Board Governance. The fiscal sponsor's board of directors approves or ratifies all new projects, periodically reviews organizational risks and liabilities, and follows generally recognized policies and practices of good governance expected of nonprofit sector organizations.
- D. Project Advisors and Governance. The fiscal sponsor's board of directors encourages, and requires where appropriate, advisory groups for fiscally sponsored projects.
- E. Conflict of Interest Policy. The fiscal sponsor's board of directors establishes a written conflict of interest policy and regularly reviews and monitors it to avoid conflicts of interest.
- F. Whistleblower Protection. The fiscal sponsor's board of directors has in place a policy that both encourages disclosure and protects from retaliation any volunteer, employee or board member who reports fraudulent activity, violations of any state or federal statute, noncompliance with a state or federal rule or regulation, or the presence of situations that pose a threat to employee health or safety due to unsafe working conditions or work practices. The policy includes provisions and procedures for the fiscal sponsor's board or for appropriate management staff to confidentially investigate and resolve such claims in a timely way.

## **6. Assessing and Selecting Projects**

*The fiscal sponsor engages in a clear, systematic process when assessing and selecting projects for sponsorship.*

### **Recommended Best Practices**

- A. **Mission Fit.** The fiscal sponsor assures that the public interest purposes of all projects support the sponsor's organizational mission and charitable purpose.
- B. **Project Assessment Criteria and Guidance.** The fiscal sponsor uses a clear set of evaluation criteria in considering all prospective projects for sponsorship.
- C. **Project Leadership Fit.** The fiscal sponsor evaluates the capability, potential, experience, and integrity of project leaders to assure a constructive, mutually respectful working relationship between fiscal sponsor staff and project leaders.
- D. **Project Sponsorship Application.** The fiscal sponsor requires sponsorship applicants to submit a detailed written project plan that articulates the civic, social and community benefits the project intends to pursue.
- E. **Written Mutual Understanding.** The fiscal sponsor and designated project leaders(s) or project governing body execute a written grantor-grantee understanding detailing the terms and expectations of the relationship, including the financial terms and administrative overhead charges established for providing fiscal sponsorship services. The understanding provides that the fiscal sponsor retains full legal discretion and control over funds raised by the project and held by the fiscal sponsor and also obligates project leaders to adhere to the fiscal sponsorship program's policies and operational procedures.

## **7. Fiscal Sponsor Service Commitment to Projects**

*The fiscal sponsor pursues its public interest mission through the projects it sponsors; recognizes and respects project leaders for their knowledge, skill and expertise; and, places a high priority on encouraging and facilitating efficacy in its projects to achieve beneficial societal ends.*

### **Recommended Best Practices**

- A. **Responsibility.** The fiscal sponsor acts as the legal and ethically accountable organization that maintains a restricted fund for the benefit of the purposes of the project.
- B. **Financial Oversight.** The fiscal sponsor commits to timely reporting on the restricted project funds to project leaders.
- C. **Relating to Project Funders.** The fiscal sponsor, in partnership with project leaders, seeks to assure that project funders receive the timely, accurate and comprehensive reports on project performance that they require.
- D. **Sponsor-Donor Communication.** The fiscal sponsor communicates as necessary and appropriate with project donor(s), institutional grantmakers, or funding agency(ies) in ways that supplement project leader communications.
- E. **Continuous Reciprocal Communication.** The fiscal sponsor establishes and maintains processes for ensuring frequent communication between sponsor administrative staff and project leaders analyzing and addressing issues critical to the success of the project.

- F. Training, Counsel and Technical Assistance. The fiscal sponsor makes available to project leaders, staff and volunteers training, counsel and technical assistance relevant to the pursuit of project success.
- G. Service Quality Assessment. The fiscal sponsor facilitates a process for gathering candid assessments of the quality of its services from project leaders and other key stakeholders, using the results to improve service.
- H. Disposition of Project Assets. The fiscal sponsor, when terminating or separating projects, will consult with the original donors where appropriate or required; transfer remaining restricted funds and/or project assets to a successor charity; and/or otherwise reach a responsible decision about disposition of remaining project assets that concurs with the original purposes for which they were acquired.

## **8. Expectations of Projects**

*The fiscal sponsor expects project leaders to adhere to clearly stated standards of ethical conduct, organizational policies and operational procedures.*

### **Recommended Best Practices**

- A. Ethical Conduct. The fiscal sponsor expects that all project personnel will act with high standards of ethical conduct.
- B. Active Project Fundraising. The fiscal sponsor expects project leaders to conduct the primary work of resource development.
- C. Project Reports. The fiscal sponsor expects project leaders to assume responsibility for reporting orally and in writing to the fiscal sponsor and project donors, and for maintaining relationships with donors.
- D. Public Policy Engagement. The fiscal sponsor provides and expects project leaders to understand and comply with the required legal and ethical guidelines when engaging in lobbying and public policy advocacy activities.
- E. Disclosure and Communication of Project Status. The fiscal sponsor requires projects to clearly disclose and state in writing their affiliation with the fiscal sponsor in all grant proposals, solicitations and published or online materials.
- F. Injurious Activities. The fiscal sponsor expects that no project will knowingly engage in any activity that jeopardizes the sponsor's corporate, nonprofit or tax-exempt status or otherwise create injurious liability.
- G. Dispute Resolution. The fiscal sponsor, while retaining full legal and fiscal control of restricted funds, works to fairly resolve disputes that may arise between the fiscal sponsor and project leaders.
- H. Project Termination and Separation. The fiscal sponsor has a process through which fiscal sponsor staff and project leaders discuss the timing, steps and procedures for separating or terminating the project.