

Fiscal Sponsorship Field Scan

Understanding Current Needs and Practices



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Prepared for Tides Center by:

Rick Green, Jaclyn Kvaternik, and India Alarcon

LaFrance Associates, LLC

251 Kearny Street, Suite 301

San Francisco CA 94108

415.392.2850

www.lfagroup.com

Contents

Introduction	3
Methods	4
Profile of Responding Organizations	5
Organizational Type	5
Organizational Lifespan	5
Project Focus	6
Number of Projects Sponsored	6
Project Turnover	7
Project Budgets	8
Perspective on Being a Fiscal Sponsor	9
Reasons for Becoming a Fiscal Sponsor	9
Challenges	11
Fees and Services	13
Fees	13
Financial Services	13
Other Services	15
Oversight	16
New Projects	16
Ongoing Oversight	17
Legal and Technical Issues	20
Access to Legal Expertise	20
Tax Exempt Status	21
Project Employee Status	24
Resource Needs	27
Conclusion	29

Introduction

The vitality of the nonprofit sector is due, in large part, to the commitment and creativity of individual citizens that organize to solve problems, address needs, and create change. Fiscal sponsorship is one structure that contributes to the nonprofit sector's flexibility and innovation. Fiscal sponsorship allows individuals to conduct charitable activities and receive tax-exempt grants and donations without building a full organizational infrastructure or receiving a formal 501(c)3 (nonprofit) status from the IRS. As our study indicates, fiscal sponsorship is a growing practice within the sector and questions and misperceptions about what good fiscal sponsorship entails abound. In early 2004, the leaders of a group of fiscal sponsorship organizations began meeting to help better define and build this relatively unknown and greatly misunderstood field of practice within the nonprofit sector. This group became known as the National Network of Fiscal Sponsors (see sidebar at right.) In order to improve the practice of fiscal sponsorship, they felt it was necessary to develop a deeper understanding of how it is currently being practiced around the country. It was in this spirit that they decided to conduct a survey of fiscal sponsors to gather data on the practices and concerns of this unique aspect of the nonprofit infrastructure.

The practice of fiscal sponsorship varies greatly. **At the most fundamental level, a fiscal sponsor is a tax-exempt, nonprofit corporation that receives and disburses funds for programs that may or may not be incorporated. The fiscal sponsor often provides administrative and financial services to these groups, which may lack administrative or fiscal capacity.** Fiscal sponsors vary greatly in the roles they play, the support they offer, the degree of liability they assume and the organizational models they utilize. Sometimes groups may choose to be a project of a fiscal sponsor because it is more efficient than operating as a stand-alone organization. Other times, a group chooses to be a project because their work is short-term (such as a film project). In still other cases, the group wishes to be a project of a fiscal sponsor until such a time that they can incorporate as an independent nonprofit organization.

National Network of Fiscal Sponsors Founding Members

The group of fiscal sponsors that sponsored this survey includes:

- Community Partners (Los Angeles)
- Colorado Nonprofit Development Center (Denver)
- Earth Island Institute (San Francisco)
- PHFE Management Solutions (Los Angeles)
- Community Initiatives Fund of The San Francisco Foundation
- San Francisco Study Center
- Third Sector New England (Boston)
- Tides Center (San Francisco)

Methods

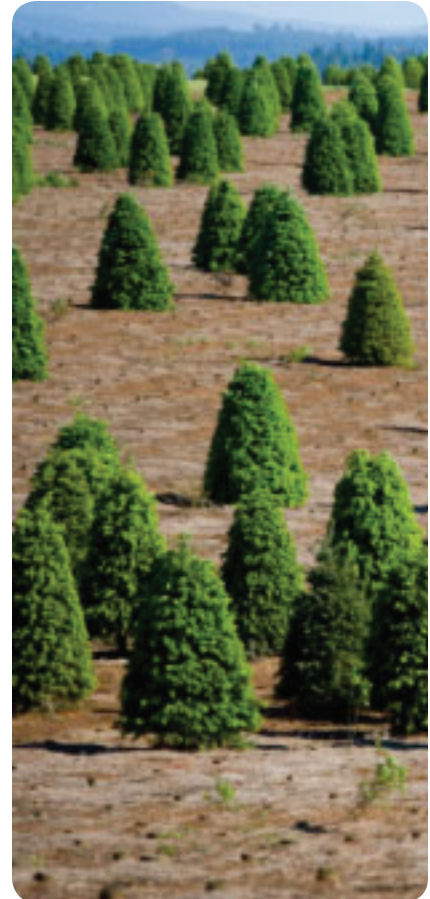
This report is based on the first ever survey of fiscal sponsors.

Commissioned by the Tides Center, the survey was conducted by LaFrance Associates (LFA), a San Francisco-based independent research and evaluation firm.

In May 2006, a web-based survey was emailed to 243 organizations that were thought to practice fiscal sponsorship as an important component of their operations. This list was compiled by the staff of the San Francisco Study Center through a thorough internet search. The SF Study Center searched several major internet search engines (including Google, Yahoo, and Alta Vista) using the terms “fiscal sponsor,” “fiscal agent,” and “fiscal receiver.” Each organization identified through this search process was contacted by phone to verify that they did indeed sponsor projects and to gather correct contact information. The list was then distributed to members of the National Fiscal Sponsor Network. Members added additional organizations that they were aware of and that were missing from the list. While it is impossible to know for certain, if we assume that the large proportion of organizations that practice fiscal sponsorship have a web site, and that the internet search was thorough and complete, it is likely that we have identified near to the complete universe of organizations practicing fiscal sponsorship at a significant level.

LFA developed the survey instrument in consultation with members of the group of fiscal sponsors. A number of legal and technical questions were developed based on the book *Fiscal Sponsorship: 6 Ways to Do it Right*, by Gregory L. Colvin. Four Network members pilot tested the instrument before it was finalized. **111 organizations responded to the survey for a 46% response rate.**

LFA analyzed all survey data and presented findings to the National Network of Fiscal Sponsors in a preliminary report. The research team from LFA met with the Network members to help interpret the finding and discuss additional analysis that would provide additional answers to remaining questions. These additional analyses, along with those in the original preliminary report, are presented here.



Profile of Responding Organizations

Our survey uncovered a diverse set of organizations practicing fiscal sponsorship. These organizations span a wide range of sizes and foci. In this section, we describe the sample of organizations that responded to the survey.

Organization Type

Over one-third (32%) of responding fiscal sponsors are community foundations. Nearly as many are Arts and Media organizations, such as art councils, media arts centers, and arts service organization. One in five organizations identifies themselves simply as fiscal sponsors. For the purposes of comparisons, we included management services organizations (MSOs) and technical assistance providers as a single category throughout this report.

Organizational Lifespan

Half of all fiscal sponsors incorporated as 501(c)3s between 1980 and 1999. Another 12% incorporated during the current decade. Nearly one-quarter incorporated between 1970 and 1979.

While many of the organizations are well established, the practice of fiscal sponsorship is new to many. Over one-third (37%) of responding organizations began acting as fiscal sponsors between 2000 and 2006 – close to a 10% increase over those that began to take the role of fiscal sponsor between 1990 and 1999 (28%).

Types of Organizations Responding to Survey (n=111)

Type of Organization	Percent of Respondents
Community Foundation	32%
Arts and Media	30%
Fiscal Sponsors	22%
Management service organization	7%
Community-based nonprofit	4%
Technical assistance provider	2%
Other	4%

The sum of the percentages may be more than 100 due to rounding.

Year First Acted as a Fiscal Sponsor (n=98)

Year	Percent of Respondents
1950 – 79	15%
1980 – 89	20%
1990 – 99	28%
1999 – present	37%

Year Fiscal Sponsor Incorporated as 501(c)3 (n=110)

Year	Percent of Respondents
1936 – 59	7%
1960 – 69	7%
1970 – 79	24%
1980 – 89	20%
1990 – 99	30%
2000 – present	12%

Project Focus

Fiscal sponsors focus on a wide range of fields and issues. Forty-five percent of the fiscal sponsors focus on projects working in arts and culture. Nearly one in four (23%) specialize in environmental groups. More than one in five focuses on youth development, education and training, and/or human or social services. While many fiscal sponsors have multiple foci, approximately one-third (32%) do not focus on any specific issue area or population.

Mission Focus of Fiscal Sponsor (Do you focus on specific types of projects?) (n=109)

Type of Project	Percent of Respondents
Arts & Culture	45%
Environment/Sustainable Growth	23%
Youth Development	21%
Education/Training	19%
Human Services/Social Services	19%
Economic Opportunity/Community Economic Development	17%
Social Justice/Political Advocacy	17%
Children, Youth, and Families	16%
Women	16%
Festivals and Events	15%
People or Communities of Color/Minorities	14%
Health/Nutrition	11%
Housing/Homelessness	8%
International Development	6%
Drug Treatment	5%
Transportation	5%
Mental Health	4%
Faith-based/Religious	3%
Disaster Relief	2%
Other	1%
No specific projects	32%

The sum of the percentage is more than 100 because respondents were able to select more than one response.

Number of Projects Sponsored

Half (51%) of the organizations act as fiscal sponsors for eight or fewer projects, including one-quarter (25%) that sponsor between four and eight projects. While the median number of projects sponsored is 8, the mean average is 37 projects. The mean number of projects is skewed high because of nine fiscal sponsors that are currently sponsoring over 100 projects. The largest number of projects currently sponsored by a single organization is 400. Six percent have no current projects.

Current Number of Projects Sponsored (n=107)

Number of Projects	Percent of Respondents
0	6%
1 – 3	20%
4 – 8	25%
9 – 15	11%
16 – 30	11%
31 – 45	7%
46 – 60	5%
61 – 99	8%
100 – 200	4%
201 – 400	5%

Mean Number of Projects

37.0

Median

8.0

The sum of the percentages may be more than 100 due to rounding.

Number of Projects Sponsored by Organizational Type

Type of Organization	Average Number of Projects	Percent of Organizations Sponsoring <10 Projects
Community Foundation (n=24)	83	25%
Arts and Media (n=30)	37	53%
Fiscal Sponsor (n=36)	18	61%
MSOs (Management Service Organizations) (n=10)	15	70%

The number of projects sponsored varies greatly depending on organizational type: there differences are highly significant. Community Foundations in our sample sponsor an average of 83 projects, far more than the average number of projects sponsored by any other type of organization. Only 25% of the Community Foundations in our sample have fewer than 10 projects. Arts and Media organizations, the group with the next largest project load, sponsor an average of 37 projects. About half (53%) of Arts and Media organizations sponsor fewer than 10 projects. Organizations that describe themselves simply as Fiscal Sponsors¹, on the other hand, tend to sponsor fewer projects than other types of organizations. This group sponsors an average of 15 projects and 70% have project loads of fewer than 10.

Approximate Number of New Projects in an Average Year (n=108)

Approx. Number of Projects that End in an Average Year (n=104)

New Projects	Percent of Respondents	Ending Projects	Percent of Respondents
0	6%	0	13%
1 – 2	41%	1 – 2	50%
3 – 5	24%	3 – 5	22%
6 – 10	14%	6 – 10	8%
11 – 15	6%	11 – 15	2%
16 – 25	3%	16 – 25	2%
26 – 50	6%	26 – 50	4%
51 – 100	2%	51 – 100	0%

Mean Number of New Projects
7.7

Mean Number of Ending Projects
4.5

Median
3.0

Median
2.0

**The sum of the percentage may be more or less than 100 due to rounding.*

Project Turnover

In an average year, 65% of the organizations in our sample take on between one and five new projects, while 77% of organizations end their relationship with between one and five projects in the average year. Still, the average number of new projects is higher than the average number of ending projects (7.7 and 4.5, respectively). This is because at the high end of the scale—fiscal sponsors beginning or ending relationships with over 10 projects per year—there are more new projects than ending projects. The net gain at the high-end compensates for the net loss at the lower-end.

Looking at the net change in the number of projects for each fiscal sponsor (the number of new projects less the number of ending projects), we find that most fiscal sponsors have a steady number of projects from year to year. Thirty-nine percent take on as many projects as they lose. Only 6% of fiscal sponsors have a net loss of projects in an average year, while 56% have a net gain.

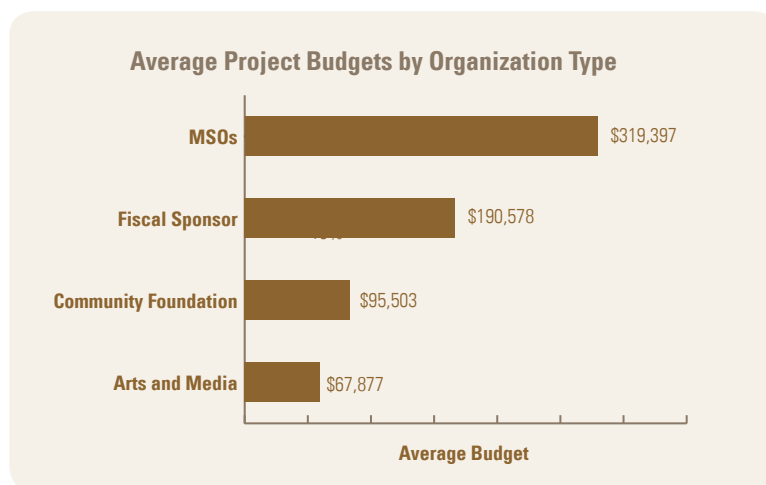
1 Throughout this report, when referring to organizations that identified themselves simply as Fiscal Sponsor, the term Fiscal Sponsor will be capitalized. When referring to all organizations that are fiscal sponsors, including those that identified themselves as Community Foundations, Arts & Media organizations, and MSOs, the term will not be capitalized.

As with total project numbers, there are significant differences among organizations of different types. Community Foundations, on average, had a net increase of 8.2 new projects each year. This is considerably more than Arts and Media organizations with 3.1 new projects; Fiscal Sponsors, with 1.7 new projects; and MSOs, with .9 new project.

Project Budgets

The sum of all project budgets ranges from a maximum of \$165,000,000 to a minimum of \$5,000. On average (mean), the total of the total amount (sum) of all current project budgets is \$4,444,563. The median average, however, is \$352,000. The mean average is skewed high because four organizations in our sample (approximately four percent) have total project budgets of \$30 million or more. Ninety-five percent of all fiscal sponsors have total project budgets of \$9,000,000 or less.

The mean average budget of individual projects is \$135,160. The median project budget is \$30,000. The average size of a project budget varies considerably by the type of organization that serves as fiscal sponsor. Projects of Arts and Media organizations tend to be smaller on average (\$67,877) than projects of other types of organizations. Community Foundations, which tend to have the largest number of projects, sponsor projects that are smaller in size (\$95,503) than those of Fiscal Sponsors or MSOs (\$190,578 and \$319,397, respectively). Fiscal Sponsors and MSOs have fewer projects overall but the average size of their projects tend to be larger.



Perspective on Being a Fiscal Sponsor

Reasons for Becoming a Fiscal Sponsor

There are many motivations for an organization to act as a fiscal sponsor. We asked organizations to indicate how important various reasons were to their decision to be a fiscal sponsor. Supporting worthy projects that would not otherwise be able to operate was clearly the most important motivation for deciding to serve as a fiscal sponsor. Other reasons that fall toward the middle of a five-point scale (where 1 was “not important” and 5 was “most important”) include: to contribute to social change; to incubate projects to become new organizations; to support and serve specific fields or issues; and to keep administrative costs low for charitable organizations. The least important reasons for acting as a fiscal sponsor were income generation for the sponsoring organization itself and simply because the organization was asked to become a fiscal sponsor. Clearly for most fiscal sponsors, mission matters more than money.

Different organizational types differ somewhat in their reasons for becoming a fiscal sponsor. Arts and Media organizations are less motivated by the opportunity to create administrative or financial efficiencies than are other types of organizations. On the other hand, creating efficiencies is relatively more important for Community Foundations. Surprisingly, generating income is more important on average for Community Foundations than for Fiscal Sponsors. Arts and Media are more motivated by the opportunity to support worthwhile projects than are other types of organizations.

There are fewer differences in motivations when comparing fiscal sponsors with larger and smaller numbers of projects. One difference that did emerge is that organizations sponsoring 50 or more projects are significantly more motivated by the potential to generate income than organizations that sponsor fewer projects.

Several responding organizations write that they sponsored projects to help promote and develop independent artists. One mentions that funders typically prefer to make grants to organizations rather than individual artists or production companies. Several state that they see fiscal spon-

“It’s a service we provide to artists who want to tell stories that are not mainstream, not the norm, and to present accurate and honest stories that will hopefully create dialogue and discourse. We work primarily with those whose work would not reach an audience if we did not provide assistance.”

sponsorship as a means to strengthen specific communities by supporting the good

Still others explain that they employ fiscal sponsorship because certain projects are in close alignment with the organization's mission or because they want to promote visibility for their own organization.

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Incubating projects until they are able to establish themselves as independent 501(c)3 nonprofits is fairly uncommon. Twenty percent of fiscal sponsors tell us that none of their projects eventually became 501(c)3s and another 50% say less than a quarter of their projects became independent. Only 22% say half or more of their projects eventually became independent nonprofits. Interestingly, fiscal sponsors with the fewest projects are the most likely to act as nonprofit incubators. Over one-third (35%) of fiscal sponsors with 3 or fewer projects indicate that half or more of their projects eventually became 501(c)3 organizations. None of the fiscal sponsors with over 50 projects and only 7% of the fiscal sponsors with between 10 and 49 projects incubate nonprofits at a similar rate. This suggests that fiscal sponsors with few projects are more likely to see their role as temporary than those that are sponsors for large numbers of projects.

Reasons for Acting as Fiscal Sponsor
(1 = Not Important; 3= Important; 5 = Most Important)

Reason for Sponsoring Project	n	Mean
Support worthy projects that would not otherwise be able to operate	103	4.2
Contribute to social change or advance a cause	99	3.6
Serve as an incubator for new organizations	99	3.5
Create a community of organizations/projects working on a particular issue or in a particular field	102	3.2
Create administrative and/or financial efficiencies for charitable organizations	98	3.2
Generate income for our organization	100	2.5
Because we were asked	98	2.3

Challenges

While we assumed that organizations would find some of the nuances of fiscal sponsorship particularly challenging to manage, this hypothesis was not borne out by our data. We asked responding organizations to assess the degree to which they felt challenged by various responsibilities of fiscal sponsors. On average, the fiscal sponsors do not rate any of the issues we presented to be “challenging” (a 3 on a five-point scale). Orienting new projects to policies and procedures, as well as staying current with legal and regulatory requirements are relatively more challenging than the more managerial and administrative aspects of fiscal sponsorship.

Challenges Facing Fiscal Sponsors
 (1 = Not Challenging; 3= Challenging; 5 = Most Challenging)

Challenges	n	Mean
Orienting new projects to policies, procedures, and requirements of being a sponsored project	99	2.6
Staying current with changes to the legal and regulatory requirements of fiscal sponsors	101	2.6
Risk management	98	2.4
Keeping projects’ budgets on track	102	2.3
Project cash flow management	102	2.3
Keeping costs down	96	2.1
Accepting new projects	100	2.1
Project personnel issues	103	2.1
Managing project audits	99	2.0
Maintaining project satisfaction with services	96	1.9
Unpaid liabilities	98	1.7
Assuring projects’ charitable purpose	102	1.7
Soliciting new projects	97	1.6

Different organizational types differ somewhat in their assessment of the various challenges we inquired about. Arts and Media organizations are less challenged by project cash flow and project budgeting issues than are other types of organizations. Community Foundations find project audits and projects’ unpaid liabilities to be more challenging than do other types of organizations. Regardless of their project loads, however, assessments of challenges are very similar.

Some of the fiscal sponsors describe significant challenges other than those listed above. Most often described is the challenge of educating funders and the community at large about the basic principles and the added value of fiscal sponsorship. Several responding organizations note the challenge of providing capacity-building assistance to projects, particularly fundraising guidance and development support. A few organizations are challenged to balance their own fundraising needs with the needs of the projects. Another common challenge is in assessing the impact of organizations’ fiscal sponsor work on their own operating costs and internal administration.

While the fiscal sponsors indicate that they are not highly challenged by running a fiscal sponsorship program, they are relatively more confident in their knowledge of the nonprofit sector generally than they are on the complexities of fiscal sponsorship. Asked about their level of knowledge in various topics related to fiscal sponsorship and the nonprofit sector generally, the fiscal sponsors, on average, do not feel they are either “very knowledge-

able” or “expert.” While the fiscal sponsors feel relatively knowledgeable about the nonprofit sector and the legal and regulatory requirements of being a fiscal sponsor, they assess themselves as only “somewhat knowledgeable” about the Sarbanes-Oxley Act, Different models and approaches to fiscal sponsorship, and other fiscal sponsors. Fiscal sponsors with 50 projects or more are significantly more confident in their knowledge of the legal and regulatory requirements of being a fiscal sponsor than are fiscal sponsors with smaller project loads.

A number of interesting differences emerge when comparing the self-assessed level of knowledge of different organizational types. Arts and Media organizations are less confident than other types of organization in their knowledge in all areas with the exception of their knowledge of other fiscal sponsors. MSOs tend to be the most knowledgeable. The group of organizations that identify themselves as Fiscal Sponsors are the least familiar with other fiscal sponsors.

Self-assessed Level of Knowledge
(1 = Not Knowledgeable; 3 = Knowledgeable; 5 = Expert)

Topic	n	Mean
The nonprofit sector	106	3.4
Legal and regulatory requirements of being a fiscal sponsor	106	2.8
Different models and approaches to fiscal sponsorship	105	2.5
Other fiscal sponsors	105	2.4
Sarbanes-Oxley Act	105	2.3

Fees and Services

Fees

Fees to projects typically fall within the range of 1% to 15% of project budgets. The large majority (88%) base their fee on a percentage of projects' budget size. Of those, 60% charge a flat percentage. Among this group, the average percentage fee is 5.6%, though it ranges from 1% to 10% of projects' budgets. Over half of the fiscal sponsors charge fees within the low range of 1% to 5%. (27% charge exactly 5%).

Thirty-three fiscal sponsors (or 40% of those whose fee is based on a percent of projects' budgets) use a sliding scale. Among this group, the range of these scales varies considerably. With the exception of a single organization that charges 25% of project budgets, these fiscal sponsors' fees fall within the same general range of those who charge a flat percentage.

Only 11% of the fiscal sponsors charge a flat fee (as opposed to a percentage) based on budget size. Four organizations charge fees of less than \$200 per year. Another four organizations have sliding scales of between \$200 and \$1000 per year. One organization has a high end of \$200,000 per year fee, and the most expensive of the organizations in our sample charges as much as \$325,000 per year.

Fees for administering government grants are substantially higher than for general funds. While the fees range from between 1% and 18%, the mean fee administering government funds was 7.7%, 2.2 points higher than the mean fee for general funds.

Financial Services

Administering project funds is the most basic level of service provided by fiscal sponsors. Over three-quarters (77%) write checks for project expenses either weekly or twice monthly. Eight percent of fiscal sponsors write checks more frequently than once a week and another 6% write checks on demand. Two percent of fiscal sponsors transfer funds to their projects upon receipt from funders.

Check-writing schedules are flexible for most fiscal sponsors. While nearly one-third (31%) have a policy of not writing checks on demand, 8% will

Fee Based on Flat Percentage of Project Budget (n=50)

Percentage Fee (Flat)	Percent of Respondents
1 to 5%	56%
6 to 9%	28%
10%	16%

Fee Based on Sliding Scale-Dependent Project Budget (n=33)

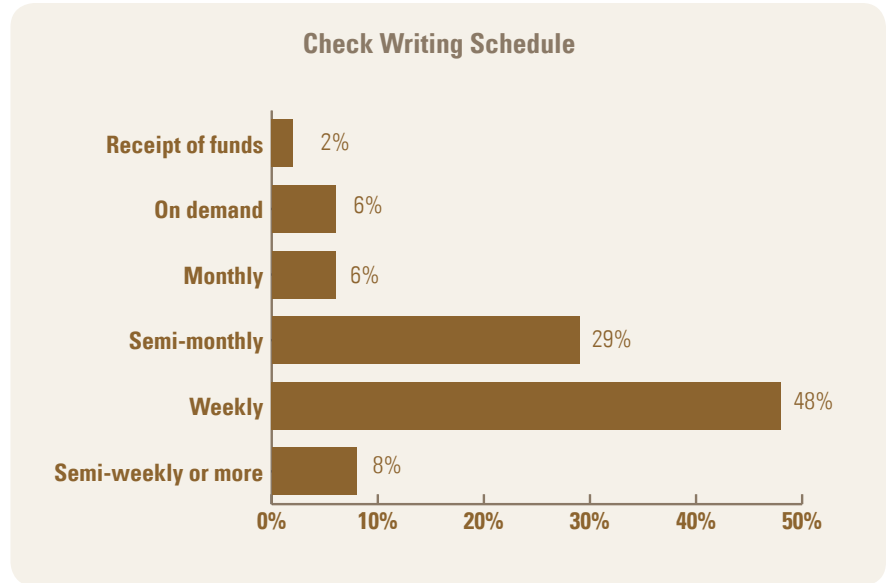
Percentage Fee (Sliding Scale)	Percent of Respondents
Full Range 0 to 15%	3%
Low Range 1 to 5%	15%
Low/Mid Range 2 to 10%	21%
Mid Range 5 to 8%	12%
Mid/High Range 5 to 15%	30%
High Range 9 to 25%	18%

write a check on demand for an additional fee. The majority (61%), however, are willing to write checks on demand for no additional fee.

Compared to a flexible check-writing schedule, advancing money to projects is a rare practice. Seventy percent of fiscal sponsors do not advance money to projects, while 18% will do so in emergencies. A small proportion (10%) advance money to projects occasionally, but only 3% make this a frequent practice.

The most commonly provided financial report that sponsors provide to their projects is the Income Statement. All but 17% of fiscal sponsor provide this type of information on a regular basis. Statements of Financial Position are provided by three-quarters (74%) of sponsors and Budgets to Actuals are provided by only 50% of sponsors. Nine percent of fiscal sponsors do not provide any financial reports to their projects.

Providing real-time, online access to financial information is relatively rare. Only 4% of fiscal sponsors provide this type of service to their projects.



Financial Statements Provided to Projects

Statements	Monthly	Quarterly	Annually	Real-time online access	Do not provide
Income Statement (n=98)	34%	27%	18%	4%	17%
Budget to Actuals (n=99)	19%	16%	14%	2%	50%
Statement of Financial Position (n=98)	31%	21%	19%	3%	26%

Other Services

The amount of additional services that sponsors provide to their projects varies widely. Most commonly offered is consultation on programs, provided by 73% of fiscal sponsors. The least frequently offered services are preparation of tax-exemption applications, office management, group vendor discounts, and legal services. None of these services are offered by more than 20% of the fiscal sponsors in our sample. In general, fiscal sponsors tend not to provide services for additional fees.

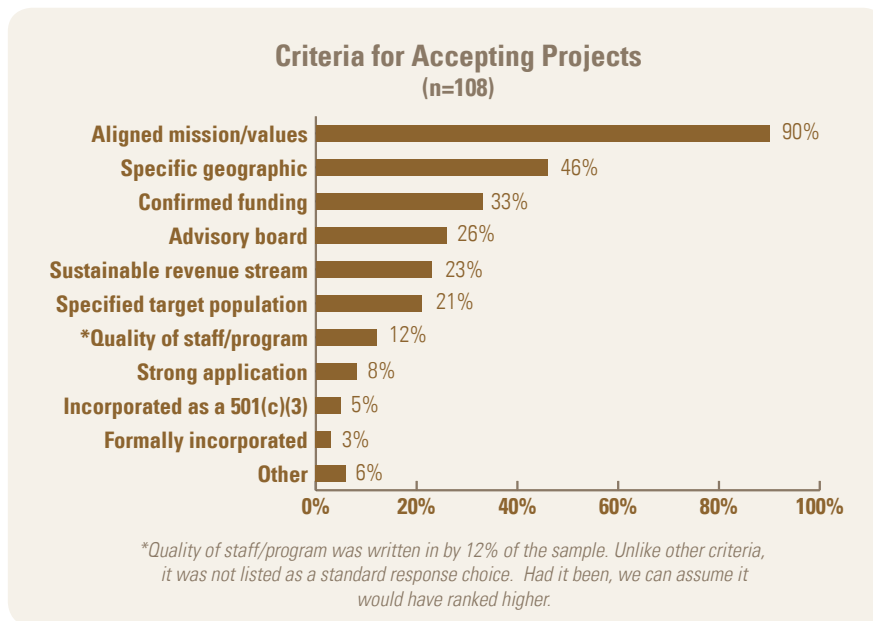
Additional Services Offered to Projects

	n	Standard Service	Additional Fee	Not Offered
Consultation on programs	100	73%	5%	22%
Peer networking support	99	69%	3%	29%
Organizational development assistance	99	62%	9%	29%
Bookkeeping and accounting	99	61%	7%	32%
Grant writing assistance	99	55%	10%	35%
Fundraising assistance	98	51%	12%	37%
Marketing and communication assistance	98	46%	10%	44%
Marketing assistance	99	41%	11%	48%
Organizational development/ Management training	98	41%	10%	49%
Resource library	95	51%	0	50%
General liability insurance	98	30%	18%	52%
Preparation of tax returns	97	31%	8%	61%
Payroll service	98	29%	6%	65%
IT/Computer support	99	22%	10%	68%
Professional liability insurance	97	19%	9%	72%
Human Resources management	97	20%	4%	76%
Shared office space	97	9%	13%	77%
Legal services	99	7%	13%	80%
Group vendor discounts	98	18%	0%	82%
Office management	98	15%	3%	82%
Preparation of tax-exemption applications	98	10%	6%	84%

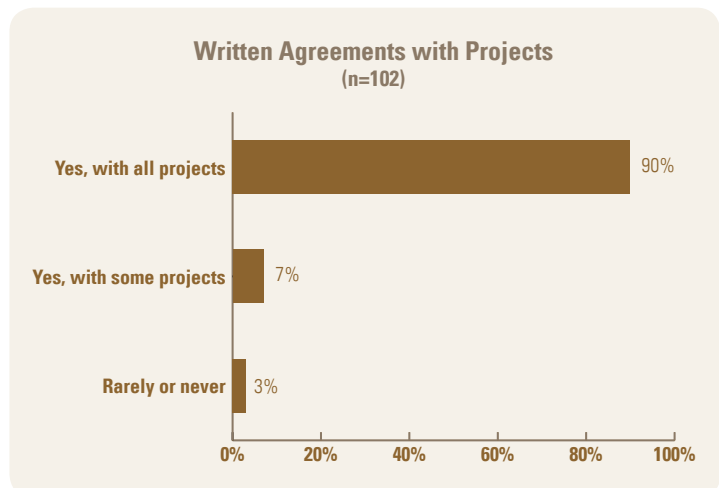
Oversight

New Projects

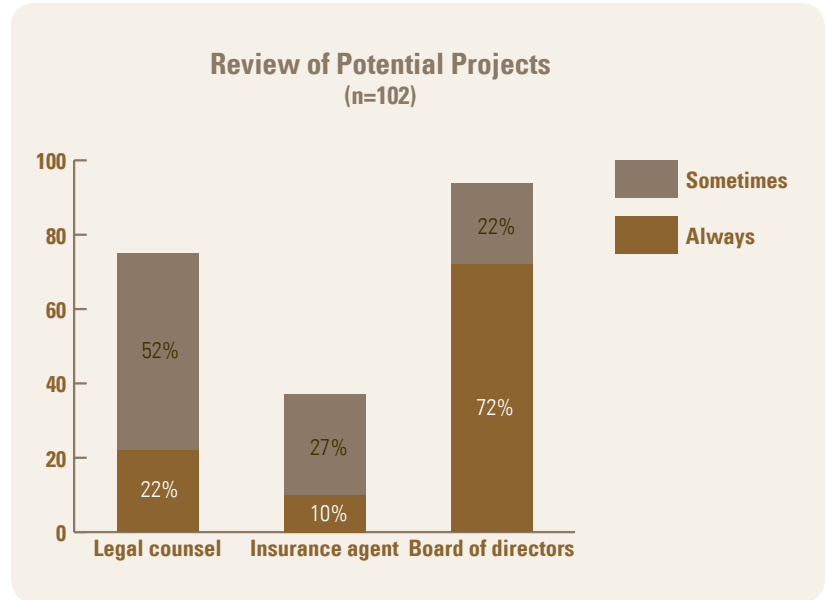
When choosing whether to accept a new project, the most important consideration by far is the project’s alignment with the fiscal sponsors’ mission and values. The next most common criterion for accepting new projects is the project’s location in the geographic region served by the fiscal sponsor. Confirmed funding is used as a criterion by only one-third of fiscal sponsors and a sustainable revenue stream is a deciding factor for fewer than one-quarter of fiscal sponsors. This is consistent with our finding that income generation is not a significant reason for organizations to become fiscal sponsors.



Signing formal written agreements with projects is fairly standard practice. Nine in ten fiscal sponsors sign agreements with all projects; only 3% rarely or never sign agreements. Formal written policies and procedures that projects must agree to abide by are almost as common; 87% of fiscal sponsors have such policies and procedures.



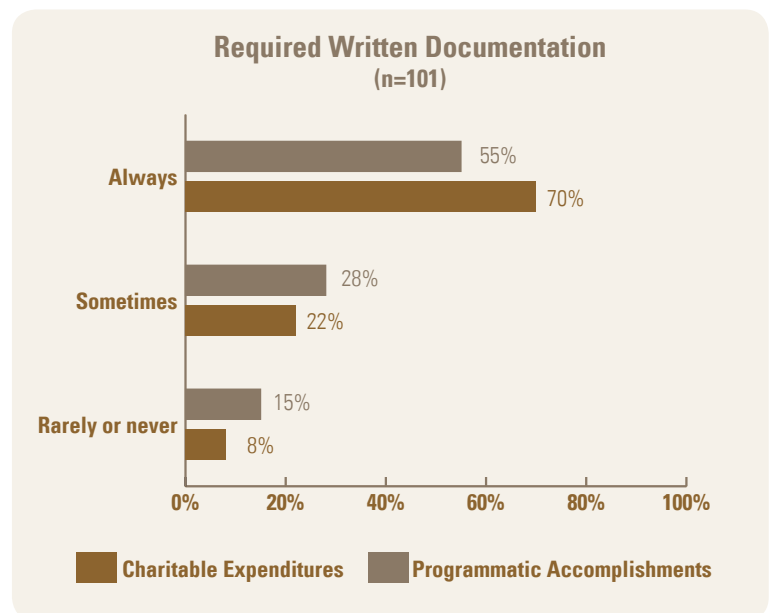
Agreements with new projects are commonly reviewed by fiscal sponsors' boards of directors. Nearly three-quarters (72%) of fiscal sponsors always have their board review agreements with new projects and another 22% sometimes have their boards review agreements (for a total of 94%). Review by legal counsel is much less common. Only 22% always have legal counsel review agreements, although just over half (52%) sometimes have legal counsel review agreements (for a total of 74%). Least common is review by insurance agents. Only 10% always have agreements with new projects reviewed by insurance agents, with another 27% sometimes having agreements reviewed by insurance agents.



Ongoing Oversight

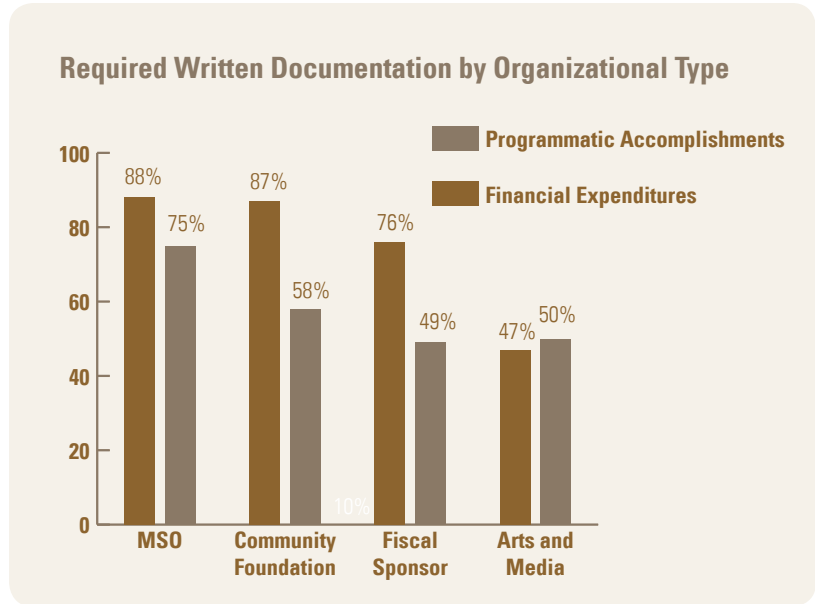
Oversight for financial expenditures is more stringent than for programmatic accomplishment. While 70% of fiscal sponsors require documentation for all financial expenditures, only 55% require documentation of programmatic accomplishments for all projects. Eight percent of fiscal sponsors rarely or never require documentation of expenditures and 15% never or rarely require documentation of programmatic accomplishments.

The amount of written documentation required for financial expenditures varies by organizational type. MSOs and Community Foundations are the most likely to always require written documentation. While 88% of MSOs and 87% of Community Foundations always require written documentation, only 47% of Arts and Media organizations have similar policies. Three-quarters (76%) of Fiscal



Sponsors always require written documentation.

Differences in the amount of written documentation required for programmatic accomplishments are not as great. As with financial expenditures, MSOs, are the most likely to always require written documentation for programmatic accomplishments (75% have such policies). Just over half (58%) of Community Foundations always require written documentation of programmatic accomplishments, while half of Arts and Media and Fiscal Sponsor organizations have similar policies.



The level of contact between fiscal sponsors and their projects varies greatly. All have some contact, but a surprising number have very limited contact. While no fiscal sponsor reports that they have no phone contact, 9% are in phone contact only annually or less often. All but 4% of fiscal sponsors at least occasionally have in-person meetings with their projects, though 16% do so less than once a year and another 15% do so annually. Three-quarters (75%) make site visits and 50% do so at least once a year or more often. Formal surveys are the least commonly used communications mode. One-third (32%) never conduct such surveys, though nearly one-quarter (23%) use surveys more than once a year.

Means of Communication	Weekly or more often	Monthly	Quarterly or semi-annually	Annually	Less than annually	Never
Site visits (n=100)	6%	6%	23%	15%	25%	25%
Telephone calls (n=100)	32%	33%	26%	6%	3%	0%
In person meetings (n=101)	7%	21%	38%	15%	16%	4%
Survey of needs, interest and/or satisfaction (n=99)	3%	5%	15%	22%	22%	32%

Communication Frequency by Organizational Type

Means of Communication	Community Fnds (n=24)	Fiscal Sponsors (n~32)	Arts and Media (n~29)	MSOs (n~8)
Site visits (n=100)	6%	6%	23%	15%
Telephone calls (n=100)	32%	33%	26%	6%
In person meetings (n=101)	7%	21%	38%	15%
Survey of needs, interest and/or satisfaction (n=99)	3%	5%	15%	22%

As with the level of required written communication, MSOs have more stringent oversight policies than do other organizational types. MSOs are more likely to regularly engage in every communications method, with the exception of in-person meetings, than are other types of organizations.

Fiscal sponsors with between four and nine projects are the most likely to be in close contact with their projects than fiscal sponsors with either more or fewer projects. Those in the four-to-nine project range are more likely to frequently use each of the communications methods discussed above. Fiscal sponsors with more than 10 projects are less likely to conduct site regular site visits or hold frequent in-person meetings than are fiscal sponsors with fewer projects. This suggests that with larger numbers of projects, “high touch” becomes more difficult.

Legal and Technical Issues

Access to Legal Expertise

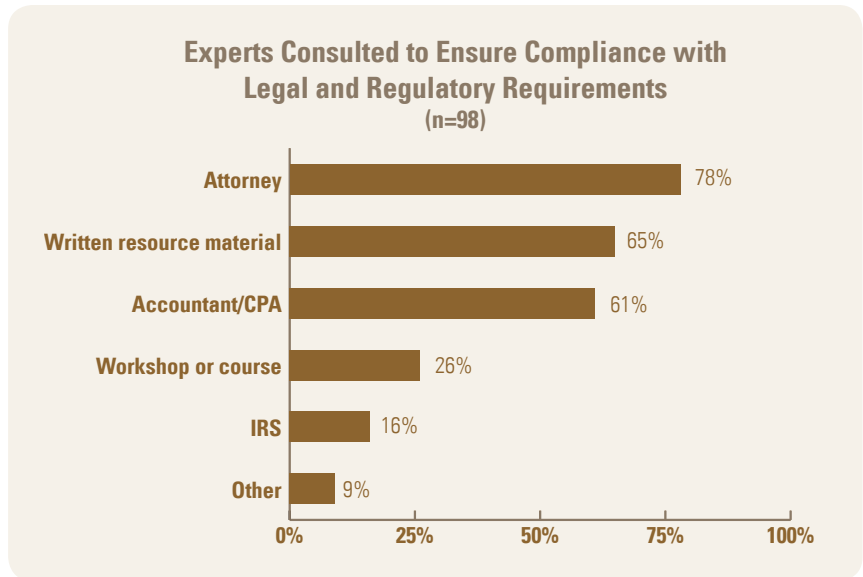
The legal and technical requirements of being a fiscal sponsor are complex. Many fiscal sponsors express a lack of confidence in these areas.

Almost all fiscal sponsors (88%) consult with some expert to ensure compliance with legal and regulatory requirements. Most often (78%) that expert is an attorney. Nearly two-thirds rely on written resources and nearly as many (61%) turn to accountants and CPAs. Several fiscal sponsors mention that they consult with professional grantmaking associations,

such as the Council on Foundations, or other fiscal sponsors for guidance. Organizations with 50 or more projects are more likely to have consulted with each type of expert than organizations that sponsor fewer projects. The least likely to have consulted experts are those organizations with between four and nine projects.

While almost all (89%) of fiscal sponsors have access to expertise on legal and regulatory requirements of fiscal sponsors, only 11% have such expertise on staff. Another 11% do not have access to expertise.

Arts and Media organizations are the least likely to have access to expertise. Twenty-eight percent do not have access either on staff or through consultants. A smaller proportion (13%) of MSOs also has no access to expertise. All Community Foundations and Fiscal Sponsors in our sample report that they did have access to expertise. Interestingly, however, Fiscal Sponsors are the least likely to have expertise on staff (3%). MSOs are the most likely to have expertise on staff (25%), followed by Community Foundations (17%).



Access	Percent of Respondents
Yes, through consultants, attorneys, etc.	78%
Yes, expertise on staff	11%
No	11%

The term “fiscal agent” is generally considered to be frowned upon by the IRS, while “fiscal sponsor” is preferred as more legally correct. The large majority of organizations refer to themselves as “fiscal sponsors.” Only 11% percent refer to themselves as fiscal agents. Other terms used include pass-through fund, nonprofit incubator, and professional affiliate. No Community Foundation and only 6% of Arts and Media organizations use the term “fiscal agent.” Somewhat contradictorily, 22% of those organizations that describe themselves as Fiscal Sponsors use the term “fiscal agent” in describing their relationship with sponsored projects.

Term	Percent of Respondents
Fiscal sponsor	80%
Fiscal agent	11%
Fiscal receiver	1%
Other	8%

Tax Exempt Status

While half (51%) of organizations in the survey do not have an IRS Group Exemption Letter, over one-third (36%) are not sure. Only 13% affirm that they do have such a letter which would cover projects as subordinate organizations.

By and large, projects do not have their own 501(c)3 determination. Two-thirds of fiscal sponsors (67%) have no projects with their own 501(c)3. One-third of fiscal sponsors have at least some projects with their own nonprofit status. Most commonly (23%) these projects comprise one-quarter or fewer of projects. For 7% of fiscal sponsors, however, over half of their projects have their own 501(c)3 status, and for 1 fiscal sponsor, all their projects have a nonprofit determination.

509(a)3 determinations are less common. For 86% of fiscal sponsors, no project has such status. For 5%, however, over one quarter of their projects have a 509(a)3.

Proportion of Sponsors’ Projects with IRS Standing	501(c)3 (n=108)	509(a)3 (n=101)
All	1%	0%
More than or about half	7%	3%
Between half and a quarter	3%	2%
25% or fewer	23%	9%
None	67%	86%

**The sum of the percentage may be more or less than 100 due to rounding.*

Only half of fiscal sponsors say that they have full legal discretion and control over project funds. Just over a quarter say that discretion and control is shared between the sponsor and the project.

Arts and Media organizations are the least likely to claim legal control over project funds. Only 28% of these organizations claim legal control, while 75% of MSOs, 68% of Fiscal Sponsors, and 61% of Community Foundations claim this control. Arts and Media organizations are more likely than other organizational types to assert that the project or the funder has control of project funds.

Well over half (62%) of fiscal sponsors indicate that they are responsible for reporting financial transactions to the IRS. One quarter, however, say that the projects are responsible. Ten percent indicate it varies by projects and 3% are not sure who is responsible.

Arts and Media organizations are the least likely to claim responsibility for reporting to the IRS; only 41% indicated they are responsible. The most likely to claim this responsibility are Community Foundations; 83% indicated they are responsible. Seventy-five percent of MSOs and 63% of Fiscal Sponsors claim responsibility for reporting.

Projects of most fiscal sponsors (63%) are not permitted to seek grants and raise funds under their own name. Seventeen percent of fiscal sponsor said their projects were permitted to raise funds under their own name; 15% said it varied by project; 5% were not sure.

Responses to this question vary by organizational type. MSOs are most clear in their response: 88% report that projects are not able to seek grants under their own name. Three-quarters of Community Foundations and Fiscal Sponsors report that projects are not able to seek grants under their own name. Arts and Media organizations differ considerably in their responses, with 38% reporting that projects cannot seek grants under their own name. One-quarter (24%) of Arts and Media organizations report that projects are allowed to seek grants under their own name and slightly more than one-quarter (28%) report that it varies by project. Arts and Media organizations are also more likely to be unsure about the policy on this issue.

Legal Discretion and Control over Project Funds (n=98)

Who Controls Project Funds	Percent of Respondents
The fiscal sponsor	52%
The projects	11%
The funder	3%
Discretion and control is shared between sponsor and the project	28%
Varies by project	6%

Entity Legally Responsible for Reporting Financial Transactions to the IRS (n=98)

Who Reports	Percent of Respondents
We, the fiscal sponsor	62%
The projects	25%
Varies by project	10%
Not sure	3%

Ability of Projects to Seek Grants and Funds Under their own Name (n=99)

Response	Percent of Respondents
Not allowed	63%
Allowed	17%
Varies by project	15%
Not sure	5%

Only 9% of fiscal sponsors say that they have been affected by changing guidelines at the Department of the Treasury and other federal agencies which discourage the use of fiscal sponsorship. While half (50%) say they have not been affected, 42% are unsure if their organization has been affected or not.

Fewer than 10% of fiscal sponsors have received communications from the IRS or other regulatory agency about their fiscal sponsorship program. Of those that had some correspondence, the most common communication was an IRS field audit.

Disputes between fiscal sponsors and projects are relatively rare. Only 25% of fiscal sponsors indicate that they have ever had a dispute with their project. The most common type of dispute (reported by 12% of fiscal sponsors) was a vendor demanding payment of a project expense that the fiscal sponsor had not agreed to pay. Five percent report resistance from a project when the fiscal sponsor wanted to terminate the relationship.

Received Communication from the IRS or Other Regulatory Agency about Sponsorship Program (n=90)

Response	Percent of Respondents
No	92%
Yes, we had an IRS field audit	6%
Yes, in response to our Form 1023 exemption application to the IRS	2%
Yes, from an agency other than the IRS	1%
Yes, we had an IRS correspondence audit	0%

**The sum of the percentage may be more or less than 100 due to multiple answer choices.*

Disputes Involving a Project (n=111)

Type of Dispute	Percent
Vendor demanding payment of a project expense we had not agreed to pay	12%
We wanted to terminate a project, they resisted	9%
Project went insolvent; We had to use other funds to pay their bills	8%
Project wanted to leave, dispute over what assets they would take	5%
Dispute with funding sources	5%
Vendor sued for payment of a project expense	4%
Arbitration or mediation with a project	4%
Went to arbitration of mediation with a vendor	3%
Lawsuit with a project	1%

Project Employee Status

The legal relationship between project staff and their fiscal sponsor varies considerably. Most commonly (57%), project staff are independent contractors of the projects (not the fiscal sponsor) for which they work. Only one-quarter (26%) of fiscal sponsors say that project staff are employees of the fiscal sponsors. Eleven percent say that project staff are not employees at all, but volunteers.

The legal relationship between sponsor and project staff varies considerably by organizational type. The most significant difference is in the proportion of fiscal sponsors that view project staff as employees of the fiscal sponsor. While 44% of community foundations and 36% of MSO/Professional Associations report such a relationship between themselves and at least some of their projects' staff, only 10% of Fiscal Sponsors and 6% of Arts and Media organizations report a similar relationship. Arts and Media organizations are more likely to view project staff as independent contractors of the projects than are other organizational types. Fiscal Sponsors are more likely to have volunteers, rather than paid staff, working on projects.

Legal Relationship between Project Staff and Fiscal Sponsor (n=98)

	Percent of Projects
Project staff are independent contractors of the project for which they work	57%
Project staff are employees of the project for which they work	39%
Project staff are employees of our organization	26%
Project staff are independent contractors of our organization	24%
Project staff are volunteers	11%

**The sum of the percentage is more than 100 because respondents were able to select more than one response.*

Legal Relationship between Project Staff and Fiscal Sponsor (n=98)

	Community Fnds (n=32)	Fiscal Sponsors (n=29)	Arts and Media (n=17)	MSO/Pro Assn (n=11)
Project staff are independent contractors of the project for which they work	47%	48%	76%	64%
Project staff are employees of the project for which they work	34%	41%	35%	27%
Project staff are employees of our organization	44%	10%	6%	36%
Project staff are independent contractors of our organization	25%	17%	41%	27%
Project staff are volunteers	6%	24%	5%	8%

** The sum of the percentage is more than 100 because respondents were able to select more than one response*

Standard employee benefits for project employees are the exception rather than the rule. Only a quarter of fiscal sponsors offer full-time project employees paid time off for vacations, holidays, or sick leave. Health and dental insurance are even less frequently offered and part-time employees receive fewer benefits than do full-time employees.

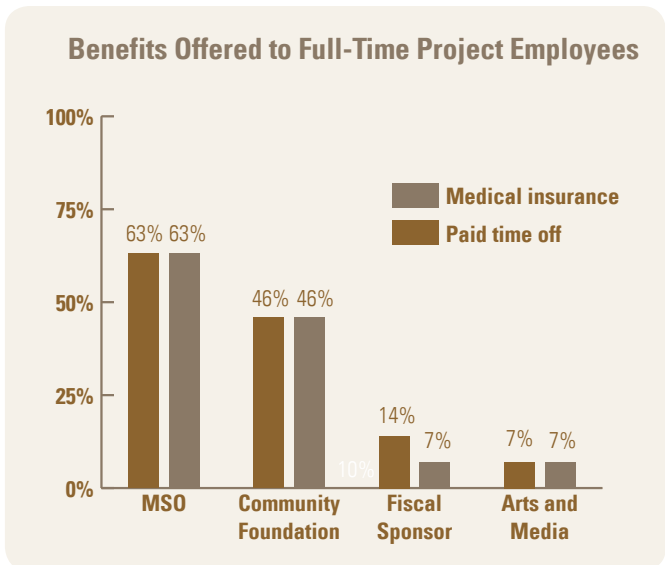
Different organizational types are more likely to offer benefits than others. Sixty-three percent of MSOs and 46% of Community Foundations offer paid time off (including vacation, holiday, and sick time) to full-time employees of projects. Only 14% of Fiscal Sponsor and 7% Arts and Media organizations offer similar benefits.

As with paid time off, 63% of MSOs and 46% of Community Foundations offer medical insurance to full-time employees. Only 7% of Fiscal Sponsors and Arts and Media organizations do so as well. Dental insurance follows a similar pattern; it is offered to full-time employees by 63% of MSOs, 42% of Community Foundations, 10% of Fiscal Sponsors and 3% of Arts and Media organizations.

Fiscal sponsors with between 0 and 3 projects are the most likely to offer benefits to employees of projects. Fiscal sponsor with between 4 and 9 projects are the least likely.

The legal relationship between project staff and the fiscal sponsor is the most accurate predictor of the level of benefits offered to project staff. For example, 92% of organizations that consider project staff to be employees of the fiscal sponsor offer paid time off (including vacation, holiday, and sick time) to full-time employees. No organization that considers project staff to be employees of the project offer paid time off, and only 3% of those that have varying relationships—not including employees of the fiscal sponsor—offer paid time off. A similar pattern is found regarding the availability of health benefits. Again, 92% of organizations that consider project staff to be employees of the fiscal sponsor offer medical insurance to full-time project staff. No organization that considers project staff to be employees of the project offer medical insurance, and only 2% of those that have varying relationships—not including employees of the fiscal sponsor—offer paid time off. The availability of dental insurance

Benefits	Full-time	Part-time
Vacation pay	25%	13%
Holiday pay	25%	10%
Sick pay	25%	11%
Medical insurance	23%	9%
Dental insurance	21%	5%
Opportunity to participate in 401(k) or other retirement program	20%	9%
Life insurance	15%	3%
Vision insurance	12%	5%



also follows this pattern.

Nearly half (47%) of fiscal sponsors indicate that projects—not the fiscal sponsor—is legally responsible for actions and omissions of project employees within the scope of their employments (such as unpaid loans, damage to property, copyright infringement, etc.). Only one-quarter (27%) of fiscal sponsors respond that it is their organization that is liable. Nine percent are not sure who is responsible.

These statistics vary considerably by the type of relationship between the fiscal sponsor and project staff. Where the project staff are considered to be employees of the fiscal sponsor, 69% of fiscal sponsors report that they are liable for actions of project staff (55% for fiscal sponsors that have varying relationships, which include employees of the fiscal sponsor). Where the project staff are considered employees of the project only, 11% of fiscal sponsors report that they are liable for actions of project staff (16% for fiscal sponsors that have varying relationships, which do not include employees of the fiscal sponsor).

Entity Responsible for the Action and Omissions of Project Staff
(n=99)

Who is liable?	Percent of Respondents
We, the fiscal sponsor	27%
The projects	47%
Specific employees of projects	8%
Varies by project	9%
Not sure	9%

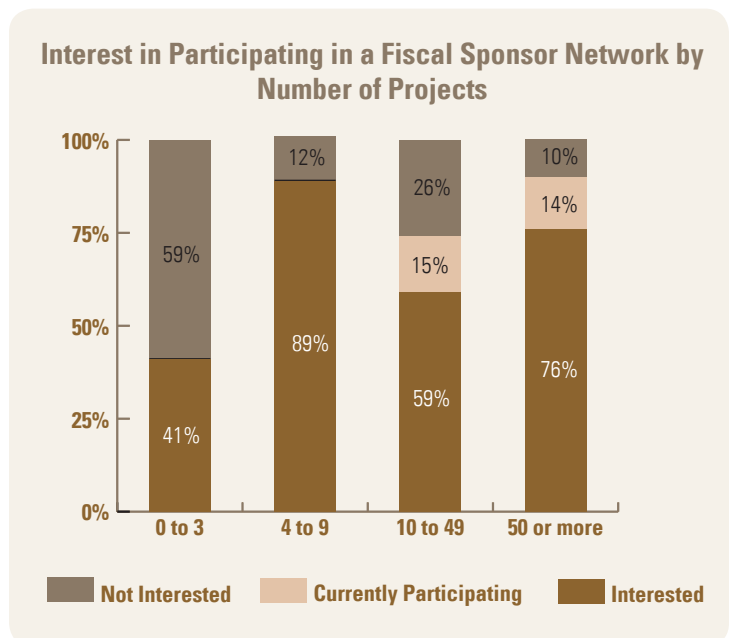
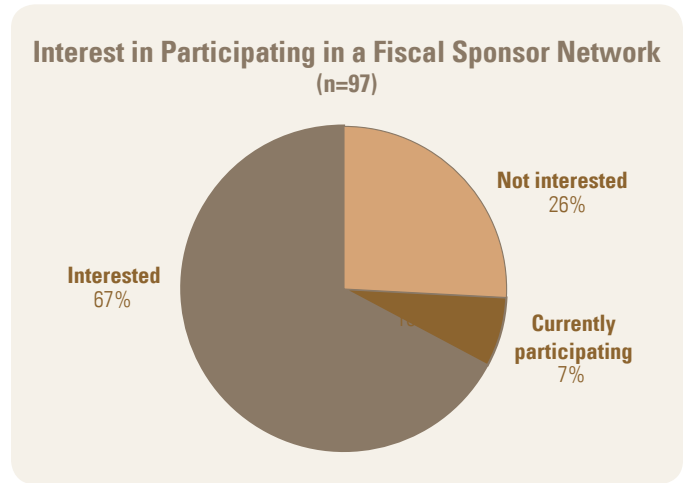
Resource Needs

Nearly three-quarters (74%) of responding organizations express an interest in participating (or are currently participating) in a fiscal sponsors' network. Those organizations who are currently involved participate in the National Network of Fiscal Sponsors that sponsored this study.

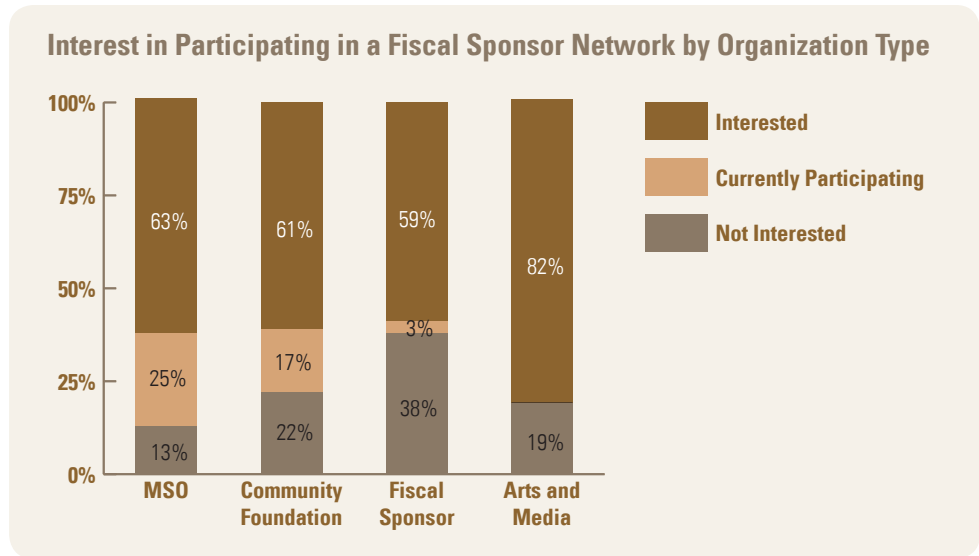
There are notable differences in the level of interests by fiscal sponsors with varying number of projects. The very largest fiscal sponsors—those with 50 or more projects—are the most interested in participating in a network. All but 10% of these fiscal sponsors are interested or currently participating.

Also very interested are those fiscal sponsors with between 4 and 9 projects—89% of organizations in this category are interested in participating. Those with 3 or fewer projects are the least interested: only 41% of these fiscal sponsors are interested in participating. Most surprisingly, over one-quarter (26%) of fiscal sponsors with between 10 and 49 projects are not interested in participating in a network.

There are notable differences in the level of interest by respondents from different types of organizations. All but one (88%) of MSOs indicate an interest in participating (or are already participating) and 78% of Community Foundations similarly indicate their interest. A similarly large proportion (82%) of Arts and Media organizations are interested in joining, though none are currently participating. Fiscal Sponsors show the least amount of interest in a network. Only 63% of these organizations say they are interested or currently participating.



The most helpful service that a network could provide to fiscal sponsors, according to the responding organizations, would be to develop and share information on technical, legal, and regulatory issues related to fiscal sponsorship. Specifically, nearly nine in ten (88%) responding organizations report that they would like a network to develop resource



materials on technical, legal, and regulatory issues related to fiscal sponsorship. More than eighty percent (82%) of fiscal sponsors hope that the network will host a web site with these specific resources materials, and 68% want the network to serve as a repository of the materials. Additionally, more than half of responding organizations would like to see a fiscal sponsor network sponsor a list serv as a question-and-answer forum, create a directory of fiscal sponsors and provide technical assistance to fiscal sponsors.

In addition to the activities listed above, fiscal sponsors also note that they would like a fiscal sponsor network to “position fiscal sponsorship as a vital proponent of independent sector vitality, autonomy, and integrity” and to “write a book about fiscal sponsorship: its scope, history and evolution, legal underpinnings, diverse forms and best practices.”

When asked what questions they have about fiscal sponsorship, the organizations’ responses fall into three primary categories: 1) legal and regulatory issues; 2) liability and insurance specifically; and 3) varieties/models of fiscal sponsorship and what distinguishes them from one another. Accordingly, fiscal sponsors report the resource that

Activities	Percent
Develop resource materials on technical, legal, and regulatory issues related to fiscal sponsorship	88%
Host a web site with resource materials on technical, legal, and regulatory issues related to fiscal sponsorship	82%
Serve as a repository of resource materials on technical, legal and regulatory issues related to fiscal sponsorship	68%
Sponsor a list serv for members to ask one another questions	66%
Create a directory of fiscal sponsors	64%
Provide technical assistance to fiscal sponsors	63%
Publish an e-newsletter with information on technical, legal, and regulatory issues related to fiscal sponsorship	55%
Sponsor an annual conference for fiscal sponsors	45%
Advocate for the practice of fiscal sponsorship	39%
Other	4%

**The sum of the percentage is more than 100 because respondents were able to select more than one response*

would support them to be more effective is a set of written materials on legal and regulatory issues, particularly as they relate to the Internal Revenue Service and state Boards of Equalization. Responding organizations also request software, other tools, and technical assistance to help manage their accounting, funding, and other administrative responsibilities for their projects.

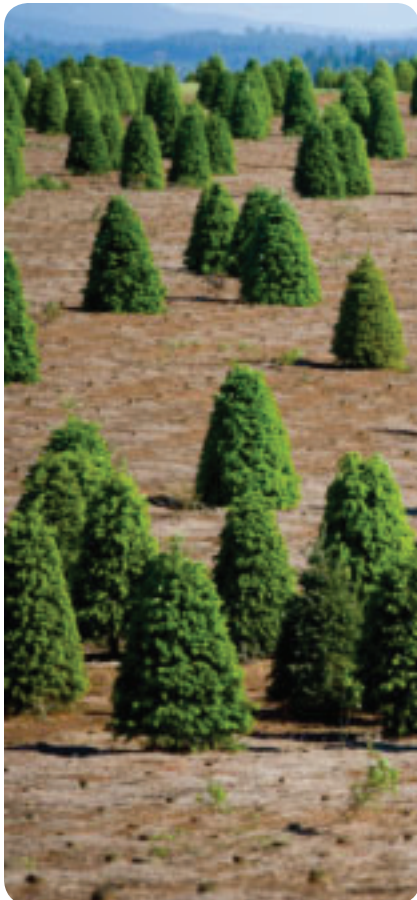
Conclusion

As evidenced by the findings of this report, the array of policies and practices employed by fiscal sponsors is wide ranging. From large to small, sophisticated to naïve, and focused to broad, there clearly is no “typical” fiscal sponsor. What is clear, however, is that there is a growing number of organizations involved in fiscal sponsorship with increasing project loads. Few of these organizations feel confident that they are “doing it right” and, due to the complexities of the law and tax codes, there is good reason for that lack of confidence. We hope this study provides a starting point for discussions about this important component of the nonprofit sector and that these discussions lead to more efficient and effective practice.

Fiscal Sponsorship: 6 Ways to Do it Right

One of the few existing resources on fiscal sponsorship is the book *Fiscal Sponsorship: 6 Ways to Do it Right* by Gregory L. Colvin. Forty percent of fiscal sponsors have read *6 Ways to Do it Right*. Of those...

- 80% acknowledged that it was very helpful with explaining different models for fiscal sponsorship
- Almost 75% found the book very helpful for providing new ways of understanding the roles of fiscal sponsors
- 68% found the book to be very helpful for providing terminology that allowed them to accurately discuss fiscal sponsorship
- 40% felt it was very helpful for providing information for improving practice as a fiscal sponsor



For More Information

Tides Center
P.O. Box 29907
San Francisco CA 94129
415.561.6300
info@tidescenter.org
www.tidescenter.org

