Myths About Fiscal Sponsorship

Fiscal Sponsorship is merely a means to incubate new projects—successful projects eventually become their own nonprofit organizations.

Although many start-ups are nurtured and grow under a fiscal sponsor, transition to independent status is becoming the exception rather than the rule. Results from the most thorough survey of fiscal sponsors to date indicate that fewer than half of the projects of large fiscal sponsors have sought to become independent 501(c)(3) nonprofits. The rate of retention is as high as 80-90% with some organizations. Project Directors frequently cite the rapidly shifting regulatory environment and the time administrative processes take from programmatic work as reasons to remain under the umbrella of a fiscal sponsor.

An appropriately structured fiscal sponsorship agreement or Memorandum of Understanding should address the possibility of a split on the front end to avoid complications down the road.

We could increase efficiency and impact by partnering with a reputable fiscal sponsor, but can't because we're already a 501(c)(3).

Established 501(c)(3) organizations increasingly partner with fiscal sponsors as they present an attractive option; offering a more efficient back office and a "safe haven" for merger-leery nonprofits, preserving their missions while providing high-level administrative support and the time and space to regroup. Essentially, when a 501(c)(3) is fiscally sponsored, all operations are carried out and reported under the fiscal sponsor while the existing 501(c)(3) “hibernates.”

A Fiscal Sponsor is synonymous with Fiscal Agent or Fiscal Conduit.

A fiscal sponsorship relationship is the converse of an agency arrangement, in which a principal is in control and directs an agent to carry out activities on its behalf. In Comprehensive Fiscal Sponsorship, the sponsor and the project are both part of the same legal entity and the sponsor must exercise final authority by only signing off on contracts and other encumbrances that further the charity’s exempt purposes and comply with all applicable laws. In a Pre-Approved Grant Relationship Fiscal Sponsorship, the fiscal sponsor exercises expenditure responsibility for all charitable funds.

A Fiscal Sponsorship Partnership will hamper a project's programmatic freedom.

Effective fiscal sponsors delegate certain operational authority to Project Directors, providing the project with the autonomy needed to pursue its purposes. To comply with IRS dictates and assure accountability, the sponsor plays the role of steward, allowing a great deal of project autonomy while exercising final authority by only signing off on contracts and other encumbrances that further the charity’s exempt purposes and comply with all applicable laws.

Fiscal Sponsorship is the same as a Donor Advised Fund

A review of the differences between donor advised funds and fiscal sponsorship makes it apparent that these are very different tools with vastly different purposes. A donor advised fund is a charitable giving vehicle administered by a public charity and created to manage charitable donations for a single organization, family, or individual to multiple projects or grantees. By contrast, fiscal sponsorship allows a single charitable project to leverage donations, grants, and contributions from multiple supporters.

I want to submit a grant proposal by Friday – I had better get a fiscal sponsor pronto!

Because of the total assumption of legal and financial liability, sponsors must exercise great care in screening potential new projects. Likewise, any group searching for a fiscal sponsor should perform their own due diligence to ensure they are partnering with a reputable, stable organization. This process should not be rushed and may take weeks or even months to finalize.