

# **National Network of Fiscal Sponsors**

## **Guidelines for Comprehensive Fiscal Sponsorship**



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### Introduction

Fiscal sponsorship has evolved as an effective and efficient mechanism for 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 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 to the leaders of sponsored projects and the issues those projects address, allowing the efficient testing of ideas for addressing social and civic issues in a supportive, collegial atmosphere. It allows new community ventures to more quickly and efficiently get up and 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, while staying carefully attuned to project financial and program performance and remaining informed about project missions and activities.

Fiscal sponsors express a range of goals that animate their missions. 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;
- Providing long term, efficient, permanent project infrastructure;
- 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 comprehensive fiscal sponsorship, many of whom work with the broad mission of advancing social justice. 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.

### **Comprehensive Fiscal Sponsorship Distinctions**

In a Comprehensive Fiscal Sponsorship Relationship, the fiscally sponsored project becomes a program of the fiscal sponsor, (a distinct difference from the pre-approved grant relationship), and is a fully integrated part of the fiscal sponsor who maintains all legal and fiduciary responsibility for the sponsored project, its employees and activities. Any work product is available to the public or to the charitable sector. The fiscal sponsor assures funders that the purposes and any restrictions of all grants and/or contributions will be met.

## **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 its 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 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 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. 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. Assumption, Management and Mitigation of Risk and Liability. The fiscal sponsor assumes financial and legal responsibility for the projects it sponsors, setting in place and maintaining

adequate systems to assess risk and mitigate exposure to liability through insurance and other risk management methods.

- E. 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.
- F. Responsibility for Specific Costs. The fiscal sponsor discloses any charges, such as legal fees or insurance premiums, for which projects are liable.
- G. Systems for Handling Funds. The fiscal sponsor 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.
- H. 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.
- I. 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.
- J. Investment and Management of Financial Assets. The fiscal sponsor establishes policies and maintains a system for responsible, prudent investment and management of financial assets.
- K. Intellectual Property. The sponsor and project leader(s) have a written understanding about the ownership of copyrights, contact lists, and other intangible properties created or obtained for the project, which are normally held as assets of the sponsor restricted for the purpose of the project.

#### **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, orienting all staff and 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, safe and respectful working conditions and aggressive non-discrimination practices.

- E. Compliance with Terms of Grants and Contracts. The fiscal sponsor ensures projects comply with financial, programmatic, and administrative requirements of grants and government contracts.
- F. Legal Signatory. The fiscal sponsor reviews, approves and signs all contracts, leases, and other legally binding project commitments.
- G. Document Retention. The fiscal sponsor retains and protects financial and personnel records, required minutes of board meetings, and all other documents in accordance with all applicable laws.
- H. 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. This active and engaged board of directors serves as the ultimate governing body of all fiscally sponsored projects.*

### **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 and benefits 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. Community Accountability. The fiscal sponsor's board of directors assures that project oversight mechanisms exist to protect the public interests served by sponsored projects.
- E. Project Advisors and Governance. The fiscal sponsor's board of directors encourages, and requires where appropriate, advisory groups for its fiscally sponsored projects, and assures that a system exists for periodic training of and communication with advisors.
- F. 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.
- G. 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 leader(s) and/or advisory group/board execute a written understanding detailing the terms and expectations of the relationship, including the financial terms or administrative overhead charges established for providing fiscal sponsorship services. The understanding provides that the fiscal sponsor retains full legal discretion and control over the project, its staff and its activities, and also obligates project leaders to adhere to the fiscal sponsor’s organizational 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. Joint Responsibility. The fiscal sponsor strives for an equitable balance between delegating full program responsibility to project leaders and the fiscal sponsor’s fiduciary and other obligations as the legal and ethically accountable organization through which the project operates.
- B. Financial Oversight. The fiscal sponsor commits to timely reporting on project finances 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. Periodic Evaluation. The fiscal sponsor's administrative staff and project leaders exchange periodic evaluative and professional performance feedback.
- H. Periodic 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.
- I. Disposition of Project Assets. The fiscal sponsor, when terminating or separating projects, will consult with the original donors where appropriate or required; transfer remaining 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 in accordance with the fiscal sponsor's ethical standards.
- B. Avoiding Conflicts of Interest. The fiscal sponsor requires that project leaders understand and abide by the fiscal sponsor's conflict of interest policy.
- C. Commitment to Organizational Policies and Operational Procedures. The fiscal sponsor provides its organizational and operational policies and procedures in writing and orients project leaders, staff and volunteers about them through trainings and other means.
- D. Active Project Fundraising. The fiscal sponsor expects project leaders to conduct the primary work of resource development.
- E. Project Reports. The fiscal sponsor expects project leaders to assume responsibility for reporting orally and in writing to fiscal sponsors and project donors, and for maintaining relationships with donors.
- F. 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.
- G. 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.
- H. 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.
- I. Dispute Resolution. The fiscal sponsor, while retaining full legal and fiscal control of projects, works to fairly resolve disputes that may arise between the fiscal sponsor and project leaders.
- J. 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.