



A Deep Dive Into Fiscal Sponsorship

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Workshop Objectives



Build Understanding

Develop a shared foundation of fiscal sponsorship concepts and terminology



Clarify Responsibilities

Understand legal obligations, financial duties, and compliance requirements



Explore Options

Examine different models, assess associated risks, and identify strategic opportunities



Learn from Practice

Review best practices and real-world examples from successful sponsorships

Who's in the Room?



Quick Poll

Help us understand your experience level and tailor our discussion to your needs:

Fiscal Sponsors

Have you served as a fiscal sponsor for a project or organization?

Sponsored Projects

Have you operated under fiscal sponsorship from a 501(c)(3) organization?

Exploring Options

Are you just beginning to explore fiscal sponsorship as a possibility?

What Is Fiscal Sponsorship?

Fiscal sponsorship is a formal arrangement between a 501(c)(3) public charity (the sponsor) and a project or initiative. Through this relationship, the sponsor provides crucial infrastructure and legitimacy to advance charitable work.

1

Receives Funds

The sponsor accepts tax-deductible contributions on behalf of the project from donors and grantmakers

2

Expends with Purpose

The sponsor disburses funds strategically to advance the project's mission and activities

3

Maintains Control

The sponsor retains legal discretion and oversight authority over all donated funds

4

Ensures Alignment

The sponsor verifies that all project activities support its broader charitable mission and comply with IRS regulations



What Fiscal Sponsorship Is NOT

Not a Pass-Through

Fiscal sponsorship requires genuine oversight and discretion —it's not simply moving money from donor to recipient without meaningful sponsor involvement or accountability.

Not a Grant Shortcut

This arrangement doesn't bypass proper grantmaking procedures or allow organizations to circumvent standard philanthropic due diligence and evaluation processes.

Not IRS Avoidance

Fiscal sponsorship must fully comply with IRS regulations and tax law. It's not a mechanism to dodge compliance obligations or reporting requirements.

Not Fiscal Agency

Unlike fiscal agency or conduit relationships, true fiscal sponsorship involves legal responsibility, discretionary authority, and programmatic oversight by the sponsor organization.



Fiscal Sponsorship vs. Fiscal Agency vs. Conduit

Understanding these distinctions is critical for compliance and risk management. Each relationship type carries different legal implications and IRS scrutiny levels.

-  **Fiscal Sponsorship**
Sponsor maintains legal control, discretion over funds, and full reporting responsibility to the IRS
-  **Fiscal Agency**
Administrative support provided without comprehensive legal oversight or discretionary control
-  **Conduit Relationship**
Sponsor acts as pass-through only; typically noncompliant with IRS regulations and can jeopardize tax-exempt status

Overview of Models

The National Network of Fiscal Sponsors identifies six fiscal sponsorship models. Today we'll focus on the three most commonly used structures in community organizations and arts projects.

Model A

Comprehensive

Project becomes an internal program of the sponsor with full integration

Model B

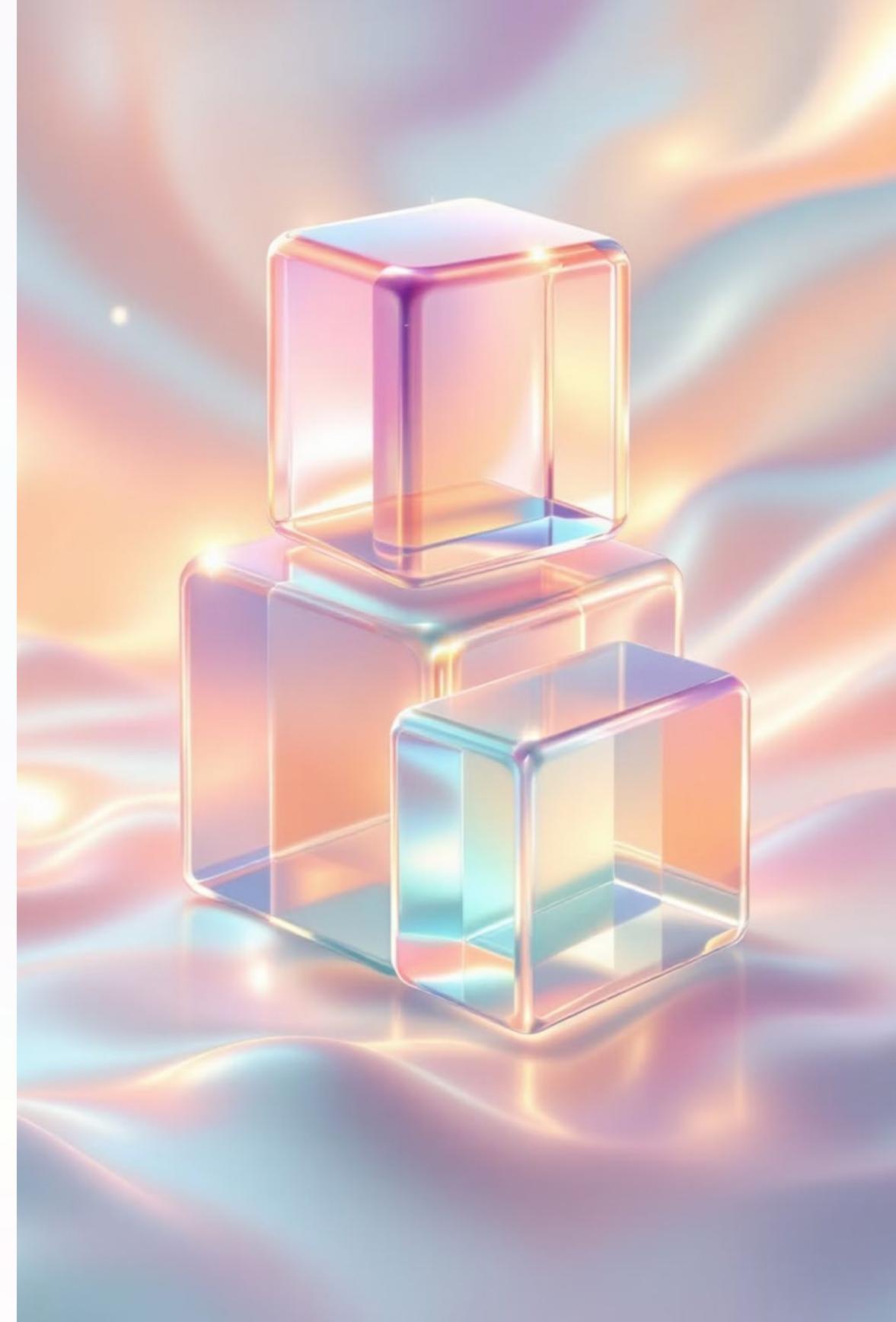
Independent Contractor

Project operates separately while sponsor receives and regrants funds

Model C

Pre-Approved Grant

Sponsor regrants to project that maintains independent ownership and control



Model A – Comprehensive

In this model, the project becomes a fully integrated program within the sponsor organization. This structure provides maximum oversight and control while offering comprehensive infrastructure support.

Project Ownership

The project legally belongs to and operates as a program of the sponsoring organization

Personnel Status

All project staff serve as employees or volunteers of the sponsor, not independent contractors

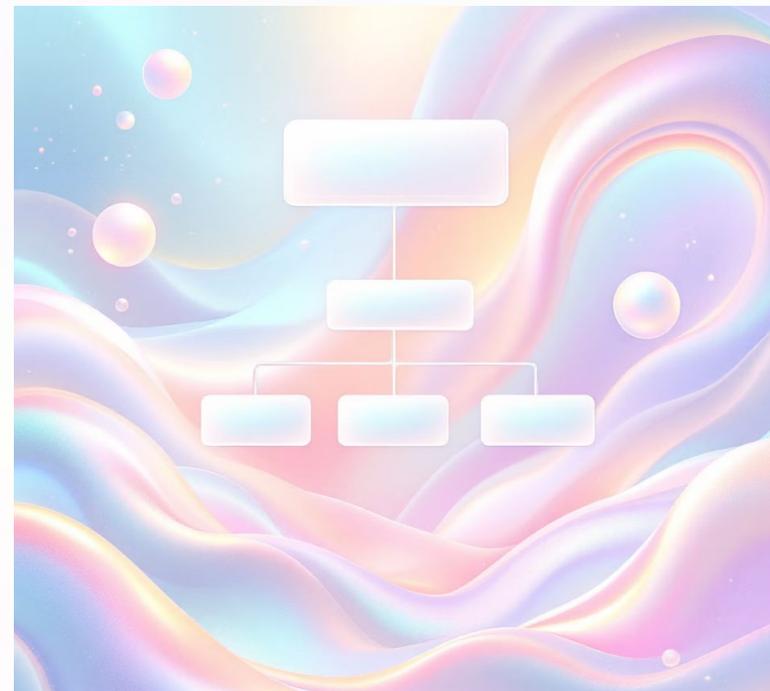
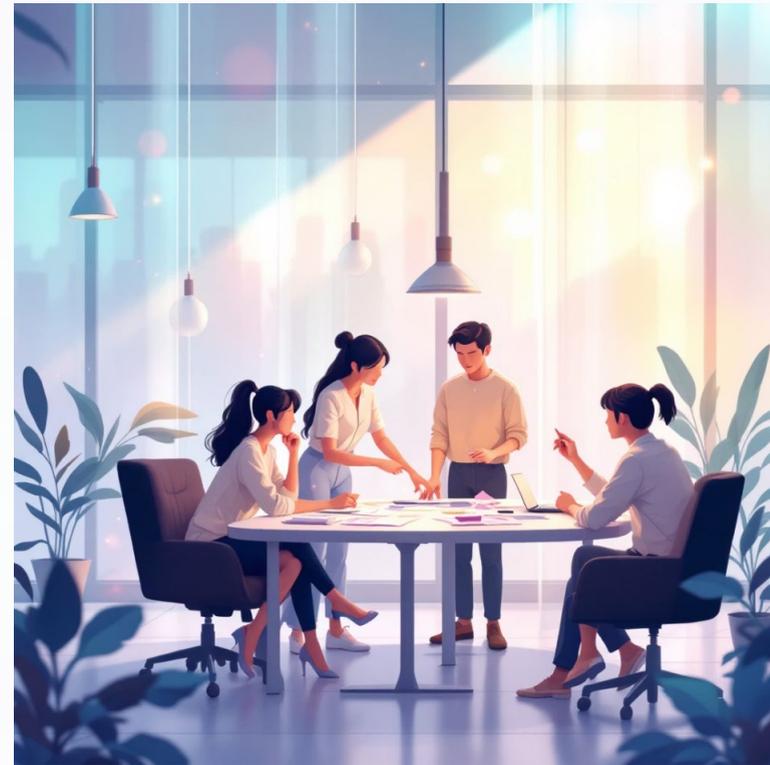
Financial Control

All contributions and earned income belong to the sponsor and appear on its financial statements

Legal Liability

The sponsor assumes full legal responsibility for all project activities and outcomes

Real-World Example: Black Equity Coalition operates under Model A, functioning as an integrated program with staff employed directly by the sponsor organization.



Model B – Independent Contractor

Structure & Control

- Project may exist as a separate legal entity (LLC, sole proprietorship, or informal group)
- Sponsor receives contributions designated for the project
- Sponsor grants funds to project through contractor agreement
- Sponsor retains ultimate discretion over fund disbursement

Operations & Responsibility

- Contractor independently manages day-to-day project operations
- Project operates with significant autonomy within agreed parameters
- Sponsor provides financial administration and compliance oversight
- Clear contractual terms define deliverables and accountability

📄 **Real-World Example:** A Juneteenth Celebration event organized by a community collective under fiscal sponsorship, where the organizing team operates independently but receives funding through the sponsor.



Model C – Pre-Approved Grant

Relationship

This model functions most like traditional grantmaking, with the sponsor serving as an intermediary funder while the project maintains maximum independence.



Real-World Example: POORLAW receives fiscal sponsorship support for a specific initiative, maintaining its own organizational structure while the sponsor facilitates funding relationships.



Legal & Mission Considerations

Fiscal sponsorship isn't just a financial arrangement —it's a legal partnership built on shared purpose and mutual accountability . Understanding the legal framework protects both parties and ensures compliance.



Mission Alignment Required

Your project must align with the sponsor's charitable mission. This isn't optional —it's an IRS requirement that protects tax -exempt status.



Legal Responsibility

The sponsor becomes legally responsible for all funds and activities. They're accountable to donors, regulators, and the public.



Written Agreement

A comprehensive written agreement is essential. It defines roles, responsibilities, and expectations for both parties.



IRS Scrutiny

The IRS closely examines conduit arrangements. Proper documentation and genuine oversight are critical to avoid penalties.

Managing Risk & Liability

Effective risk management creates a foundation of trust and protects both the fiscal sponsor and the sponsored project from potential pitfalls.

1

Define Roles and Responsibilities

Clear documentation of who does what eliminates confusion and establishes accountability. Both parties should understand decision-making authority and operational boundaries.

2

Maintain Internal Controls

Implement robust financial controls including approval processes, documentation requirements, and segregation of duties to prevent errors and fraud.

3

Ensure Proper Insurance

Verify that insurance coverage—including general liability, directors and officers, and professional liability — adequately protects all parties involved.

4

Conduct Regular Compliance

Checks
Schedule periodic reviews of activities, finances, and documentation to catch issues early and maintain regulatory compliance.



Handling Creative & Intellectual Property



Intellectual property rights can become contentious without clear agreements. Establishing ownership and usage rights upfront prevents disputes and protects creative work.

Clarify Ownership

Written agreements must explicitly state who owns the intellectual property created during the project period.

Define Usage Rights

Determine who can publish, distribute, license, or monetize the work. Consider future uses beyond the initial project scope.

Typical Sponsor Rights

Sponsors typically hold IP rights during the project period to maintain legal control and fulfill their fiduciary responsibilities.

Managing the Money

Sound financial management is the backbone of successful fiscal sponsorship. Proper accounting practices protect both parties and satisfy regulatory requirements.

Dedicated Project Accounts

Create separate accounts for each sponsored project to maintain clear financial boundaries and simplify tracking.

Comprehensive Record-Keeping

Document every transaction—incoming donations, grants, expenses, and disbursements. Detailed records are your protection during audits.

Separate Operating Funds

Keep project funds completely separate from the sponsor's general operating budget to ensure transparency and accountability.

Donor Intent Documentation

Carefully track and follow donor restrictions. Use funds only for their designated purposes to maintain donor trust and legal compliance.





Disbursing Funds— Best Practices

1 Require Detailed Expenditure Requests

All spending requests should include itemized budgets, vendor information, and clear justification tied to project goals. This documentation creates an audit trail.

2 Issue Payments Directly to Vendors

Paying vendors directly rather than reimbursing individuals reduces risk, improves accountability, and provides better documentation for tax purposes.

3 Maintain Reimbursement Policies

Establish clear policies for reimbursements including receipt requirements, eligible expenses, submission deadlines, and approval processes.

4 Establish Regular Payment Timelines

Create predictable payment schedules so project leaders can plan effectively. Define processing times and communicate expectations clearly.

Tracking & Reporting

Transparent reporting builds trust with donors, demonstrates accountability, and ensures regulatory compliance. Make reporting a priority, not an afterthought.

1

Budget Tracking

Templates

Use standardized templates to monitor spending against budget. Real-time tracking helps identify variances early.

2

Quarterly Financial Reports

Provide detailed quarterly reports showing income, expenses, and budget status to keep stakeholders informed.

3

Annual Fiscal Summaries

Conduct comprehensive year-end reviews that capture the project's complete financial picture and outcomes.

4

Audit-Ready Documentation

Organize and maintain all financial records so they're readily available for internal or external audits.



Artists & Fiscal Sponsorship

Who Can Be Sponsored?

Fiscal sponsors can support individual artists, creative collectives, and community art projects. The key requirement is that the work must further a charitable or educational purpose recognized by the IRS.

Individual Artists

Solo creators working on projects with community benefit or educational value.

Setting Up for Success

Define project deliverables, intellectual property ownership, and reporting requirements at the outset. Clear expectations prevent misunderstandings and create accountability.

Creative Collectives

Groups of artists collaborating on shared artistic or cultural initiatives.

Community Projects

Grassroots efforts that engage communities through arts and culture.



Tax Implications for Artists

Understanding tax obligations protects artists from surprises and ensures compliance. The tax treatment of payments varies based on the sponsorship structure and payment type.

Form 1099 Requirements

Payments to artists may trigger IRS Form 1099 reporting requirements. Sponsors must collect W-9 forms and issue 1099s for payments exceeding \$600 annually.

Taxable Income vs. Reimbursements

Distinguish between taxable compensation for services and non-taxable reimbursements for project expenses. Proper documentation is essential for correct tax treatment.

Sales and Use Tax

Review potential sales or use tax implications, especially for projects involving product sales, exhibitions, or events. State and local regulations vary significantly.



Selecting the Right Fiscal Sponsor

Choosing a fiscal sponsor is like choosing a business partner. The relationship can last years, so take time to evaluate fit across multiple dimensions.



Mission and Values Alignment

Look for organizations whose mission resonates with your project goals. Shared values create a stronger foundation for collaboration and mutual support.



Financial Stability & Infrastructure

Evaluate the sponsor's financial health and administrative capacity. They should have robust systems for accounting, reporting, and compliance management.



Relevant Experience

Seek sponsors with a track record in your field or with similar projects. Their expertise and connections can provide valuable guidance beyond financial management.



Communication Style

Assess transparency and responsiveness. A good sponsor communicates clearly, provides regular updates, and remains accessible when questions arise.



Key Considerations

For Fiscal Sponsors

Due diligence: Assessing suitability of potential sponsored projects

Legal agreements: Crafting comprehensive agreements outlining terms and responsibilities

Financial management: Establishing clear protocols for funds management and reporting

Risk management: Implementing measures to mitigate risks

For Sponsored Projects

- Alignment of mission and values with fiscal sponsor
- Understanding terms and obligations in fiscal sponsorship agreement
- Communication and transparency regarding project activities, finances, and reporting
- Building strong relationship based on trust and collaboration



Fiscal Sponsorship Fees

5- 15%

Typical Fee Range

Most fiscal sponsors charge between 5% and 15% of project revenue to cover administrative costs and services.

What Determines the Fee?

Fee structures vary based on the complexity and risk of your project. Understanding these factors helps you evaluate whether a fee is reasonable.



Administrative Support Level

Higher levels of bookkeeping, reporting, and compliance support typically command higher fees.



Risk Exposure

Projects with greater legal, financial, or reputational risk may incur higher fees to cover insurance and oversight.



Reporting & Audit Requirements

Complex reporting needs or audit requirements increase administrative burden and associated costs.

Best Practices for Success



Regular Communication

Maintain consistent dialogue between fiscal sponsors and sponsored projects to ensure alignment and address issues promptly.



Transparent Reporting

Ensure transparent financial reporting and accountability to build trust and meet compliance requirements.



Continuous Evaluation

Regularly evaluate and refine the fiscal sponsorship arrangement to optimize effectiveness and impact.



Flexibility & Adaptability

Accommodate evolving needs and circumstances with flexible approaches to partnership management.

Resources & Next

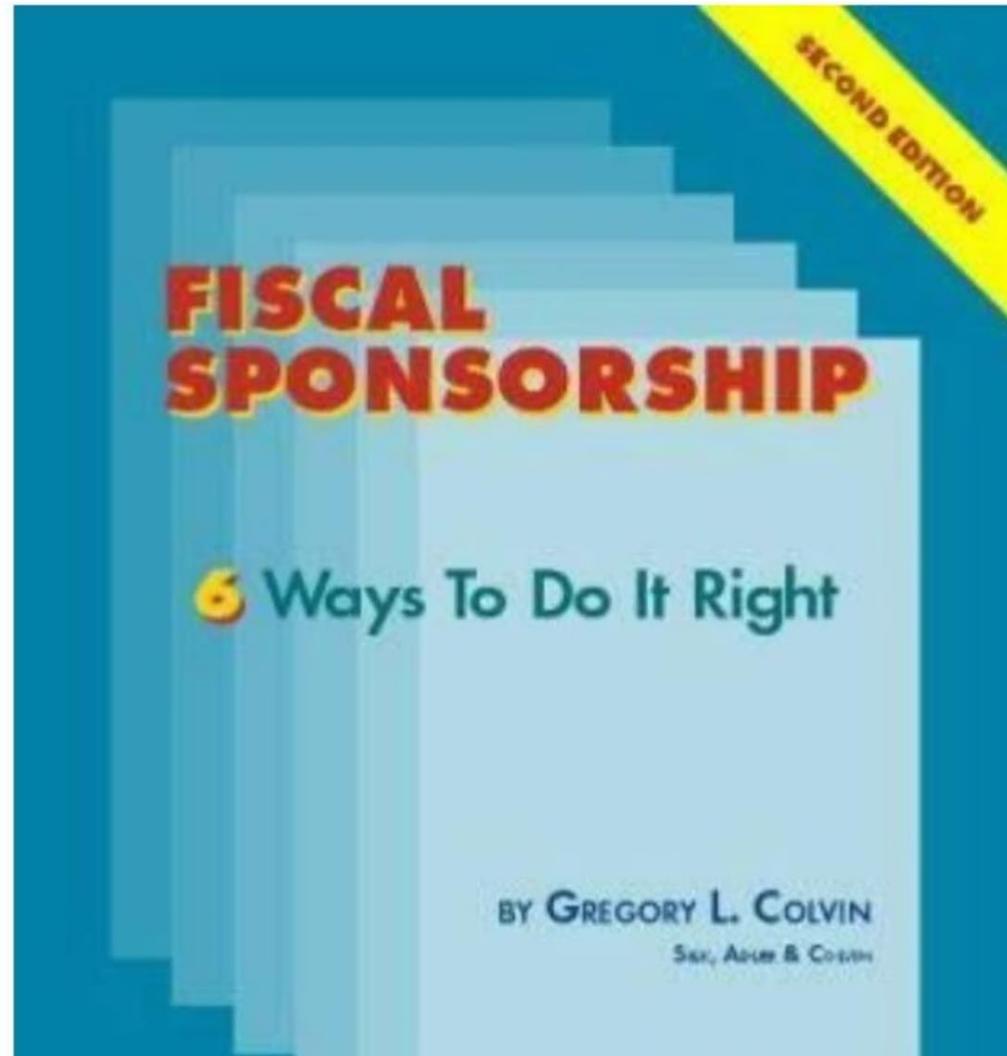
Steps

Helpful Resources

National Network Of Fiscal Sponsors fiscalsponsors.org

Fiscal Sponsor Directory fiscalsponsordirectory.org

Recommended Reading: Fiscal Sponsorship: 6 Ways to Do It Right by Greg Colvin



Understanding fiscal sponsorship models empowers organizations to choose the right partnership structure for their



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