# A White Paper:

# *On Comprehensive Fiscal Sponsorship*

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## Table of Contents

## What Is Fiscal Sponsorship?

The purpose of this paper is to provide readers with a thorough understanding of the emerging field of Comprehensive Fiscal Sponsorship (CFS). It is intended for use by:

- Individuals and groups considering using a fiscal sponsor to facilitate their mission-related work
- Organizations considering offering fiscal sponsorship services
- Nonprofit, foundation and legal practitioners who wish to inform themselves about this topic

The term "fiscal sponsorship" actually refers to several different, often overlapping arrangements. The common denominator is generally that a group wishing to conduct a charitable program without incorporating or obtaining Internal Revenue Service (IRS) recognition finds an existing 501(c)(3) nonprofit to serve as its fiscal sponsor. Many groups, though charitable in nature, lack the legal status they need to receive grants from foundations, individual donors and government agencies. It should be noted from the outset however, that existing tax exempt charities are also increasingly embracing comprehensive sponsors, realizing benefits that extends beyond tax-exempt status such as enhanced back office efficiencies, cost savings and other value inherent in comprehensive fiscal sponsorship.

Fiscal sponsors receive tax deductible contributions that are then allocated in support of project Such payments are usually disbursed in the form of payments to project staff, vendors, contractors and grantees.

A fiscal sponsor is able to offer this support only to groups whose activities further the sponsor's mission and tax-exempt purpose. The level of engagement between sponsor and project varies greatly, but at a minimum all fiscal sponsors must:

- Retain control and discretion as to the use of the funds
- Maintain records establishing that the funds were used for section 501(c)(3) purposes
- Limit distributions to specific projects that are in furtherance of their own exempt purposes.[1]
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501(c)(3) organizations acting as fiscal sponsors that fail to conform to these requirements jeopardize their own exempt status.

Fiscal sponsorship has been practiced in varying degrees since at least 1959 when the Massachusetts Health Research Institute, now Third Sector New England (TSNE), incorporated and began sponsoring community-based public health projects and research laboratories.[2] TSNE has since expanded and now offers CFS to groups of people involved in many types of civic engagement activities in their communities.[3] Over the years, TSNE, along with other like-minded organizations throughout the country, independently developed a unique brand of fiscal sponsorship known as Comprehensive Fiscal Sponsorship.

[1] Rev. Rul. 68-489, 1968-2 C.B. 210
[2] *Chronology of Fiscal Sponsorship,* The Fiscal Sponsor Directory at http://www.fiscalsponsordirectory.org/chronology.php
[3] *Brief History*, Third Sector New England at http://www.tsne.org/site/c.ghLUK3PCLoF/b.1354267/k.4A5E/Our_History_of_Capacity_Building.htm

In 2004 these groups came together and created the National Network of Fiscal Sponsors (National Network) to share and promote effective, responsible practices in the field as well as gain a deeper understanding of the current practice of fiscal sponsorship around the country. Founders of the National Network included Community Partners, Colorado Nonprofit Development Center, Earth Island Institute, PHFE Management Solutions, CIF of The San Francisco Foundation, TSNE, and Tides Center.[4]

Most members of the Network practice a flavor of fiscal sponsorship commonly referred to as 'Model A' sponsorship. Under a 'Model A' relationship, the project becomes a part of the sponsor; "the sponsor takes the project in-house. The project has no separate legal existence."[5] All employees of the project become employees of the sponsor. The sponsor's payroll tax withholding, workers' compensation insurance, unemployment benefits, and health and retirement plans offered all are applied to the project staff in the same manner as the organization's other employees. The sponsor will be liable for the actions of project employees within the scope of their employment as well as any other liabilities the project accrues. Additionally, all tax reporting is done by the sponsoring organization.

Although the 'Model A' "direct project" is the most commonly practiced form of fiscal sponsorship, other manifestations occur throughout the charitable community and their use as legitimate, creative models should not be discounted. Gregory Colvin's *Fiscal Sponsorship; Six Ways To Do It Right* provides the most thorough treatment of the various incarnations of fiscal sponsorship to date.

CFS can best be characterized as a subset of fiscal sponsorship, typically patterned after the 'Model A' relationship, where the sponsor plays a deeper, more nurturing role than contemplated by any other model. In addition to serving as the legal employer of project employees, offering insurance, and seeing to state and federal compliance matters, sponsors provide a comprehensive suite of services designed to enhance the capacity and effectiveness of projects. Most of these offerings fall into four broad categories: financial management, human resources management, information systems support, and capacity building.

Comprehensive sponsors run the essential back office operations of their projects in a highly competent, cost-effective manner, allowing agents of change to focus their passions and energies on activities central to project purposes. These sponsors also engage the projects in a wide array of capacity building endeavors, and beyond that, a host of intangible benefits begin to accrue the moment a project finds a home with a credible comprehensive sponsor. The end result of CFS is that progressive movements are able to minimize administrative burdens and maximize project impact and society's corresponding return on investment. Below, the parameters of CFS are thoroughly explored and criticisms are addressed.

## Mission Alignment

A core tenet and legal requirement of any fiscal sponsorship relationship is that the purposes of a potential project must be consistent with the sponsor's own mission.[6] This threshold requirement is the first standard articulated in the *Standards and Recommended Best Practices for Fiscal Sponsors* (Standards), a must-read set of guidelines for any nonprofit organization contemplating a role as fiscal sponsor or for any group seeking a responsible sponsor.[7] These draft guidelines, created through the collaborative effort of the members of the National Network,[8] will be referenced throughout this paper.

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[4] National Network of Fiscal Sponsors at http://www.tidescenter.org/nnfs/index.html
[5] Colvin, Gregory. *Fiscal Sponsorship; 6 Ways To Do It Right*, Study Center Press, 2005.
[6] *See* Rev. Rul. 68-489, 1968-2 C.B. 210
[7] Standard 1. *Standards and Recommended Best Practices for Fiscal Sponsors* (Appendix A)
[8] The National Network of Fiscal Sponsors at http://www.tidescenter.org/nnfs/index.html

Before a project can be taken under the supportive umbrella of a fiscal sponsor, it should be carefully scrutinized to establish that its goals and vision are both compatible and consistent with the sponsor's own mission.[9] This initial step is necessary because 501(c)(3) exempt organizations must operate in furtherance of a specific charitable purpose found in their organizing documents and forms filed with the IRS.

The activities of all nonprofits, not just those practicing fiscal sponsorship, must operate in accordance with a stated tax-exempt purpose. If a project's mission is not compatible with that of its sponsor, that sponsor is not serving its exempt status and its 501(c)(3) classification could be jeopardized. Although the vetting processes used by organizations engaged in comprehensive fiscal sponsorship vary, all are should be thorough; ensuring mission compatibility. Review and approval of the project by the fiscal sponsor's board of directors is standard.

## The Memorandum of Understanding and Advisory Boards

The union between project and 'Model A' sponsor is typically enumerated in a memorandum of understanding between the fiscal sponsor and the unincorporated organization.[10] This agreement establishes the project as a legal part of the sponsor. The parameters of employment and project management, delegations of authority, the use and roles of advisory boards, property rights, and the duration and terms of project closure are typically addressed in this document.

The fiscal sponsor must be cautious in selecting projects because it assumes total legal responsibility for the project and all current and future project employees become direct employees of the fiscal sponsor. This is a serious matter as any previous legal issue attached to a project is generally absorbed by the sponsor.

Likewise, the sponsor becomes liable for all subsequent legal issues that arise in connection with the project. Until this arrangement concludes, the project is not a legally separate entity. Assuming this liability by the sponsor is a necessary component of a fiscal sponsorship relationship. All nonprofits practicing CFS have established sets of criteria used to evaluate prospective projects. Because of this total assumption of legal and financial liability, fiscally sponsored relationships are not the same as so-called conduit or pass-through arrangements.

Once a project joins the fiscal sponsor, regular contact must be maintained in order to properly manage all risks. CFS practitioners recommend and sometimes require that projects establish Advisory Boards that function similar to a traditional Board of Directors.[11] Although these Advisory Boards have no legal or governing authority, they provide an important mechanism of accountability and support for projects.

Advisory Boards are responsible for providing assistance in the areas of project policy development, fundraising, and organizational development. They also monitor and evaluate the performance of project directors and provide the fiscal sponsor with advice and recommendations regarding personnel, financial, and administrative matters as well as other issues related to their projects.

Likewise, when an existing 501(c)(3) nonprofit transitions into a comprehensive sponsorship relationship, the

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9 Standard 7 (Appendix A)
10 Standard 7, *Standards*, *Id.*
11 Standard 6, *Standards. Id.*

organization's Board of Directors often assumes the role of Project Advisory Board. The activities of the new Advisory Board remain substantially similar to those of the previous Board except that fiduciary duties and legal liability are now vested in the sponsor's Board of Directors which must exercise final decision making authority to ensure that the Project is in compliance with all state and federal laws.

## Ease of Entry

Ease of entry into community engagement is a key benefit of fiscal sponsorship. The prospect of obtaining 501(c)(3) status and forever-after complying with complex requirements can be daunting to many would-be social entrepreneurs. Organizing under state law, attaining an employment identification number, and filing the lengthy Form 1023 along with other required documents and accompanying fees are the first steps an organization must take to become tax-exempt under IRC §501(c)(3).[12]

After all necessary filings have taken place, it can take many months to hear back from the IRS, which often responds with follow-up inquiries. Although the date of exemption usually relates back to the filing date or the date the organization was created, foundations and other donors are understandably hesitant to extend monetary support to groups that have yet to receive an affirmative determination from the IRS. This arduous undertaking siphons time, money and energy from a project often leaving it dead in the water. Costly legal assistance is often necessary and always recommended.

Many projects, such as small grassroots movements, lack the wherewithal even to begin this process. For others organized with a short-term charitable goal in mind, the process of obtaining an affirmative determination letter from the IRS may take more time than would otherwise be necessary to accomplish the project's goals. Speed is of the essence for many important nonprofit endeavors. Large nonprofit organizations and their set agendas are often too slow to respond to urgent, emerging issues. For these time-sensitive movements, independent 501(c)(3) status is not a viable option. For many groups unwilling to drain limited resources engaging with the IRS, fiscal sponsorship represents an attractive alternative.

Under a properly constructed CFS relationship, the unincorporated project becomes a program of the fiscal sponsor and will not be burdened with navigating IRS red tape. As the project is now part of a larger nonprofit, its activities become a part of the sponsor's exempt activities. The project can immediately solicit and receive funding in the fiscal sponsor's name.

In fulfillment of their fiduciary duties, CFS nonprofits carefully monitor project fundraising efforts and will sign off on grant applications, RFP's, and legally binding project commitments.[13] Under the legal control of a CFS organization that also runs all back office operations, projects are afforded a great deal of autonomy in both crafting and achieving their goals so long as the activities continue to further the exempt purpose of the sponsor. For groups that need tax-deductible donations to achieve a charitable purpose, fiscal sponsorship is the most straightforward and time-tested alternative to obtaining an affirmative determination letter from the IRS.

## Ongoing Compliance

Once an organization has received an affirmative determination letter from the IRS, it must meet a host of

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12 *Lifecycle of a Public Charity* at http://www.irs.gov/charities/charitable/article/0,,id=122670,00.html
13 Standard 5, *Standards Id.*

annual and semi-annual filing requirements under both state and federal law.[14] This process is costly and time consuming, but failure to comply properly can result in forfeiture of the organization's exempt status. Once again, these organizations are frequently forced to seek the assistance of costly legal counsel. With CFS, all required informational reporting occurs in a streamlined, consistent, and transparent fashion on the sponsor's Form 990.

The IRS also gains from the organized infrastructure comprehensive sponsors provide. For instance, a fiscal sponsor sponsoring 100 projects files one Form 990. This single 990, assembled by experienced professionals, presents all required information for the 100 projects that make up the organization. The IRS thus has to review a single, lengthy, yet well organized informational return rather than 100 shorter returns often prepared by nonprofessionals.

CFS organizations also have annual financial audits that serve to maintain the highest standards of accountability and transparency.[15] With over 1.4 million nonprofits operating in the United States[16], fiscal sponsors serve to ease the burden on the IRS, making efficient use of the corresponding tax dollars spent on the Service's operations.

## Nurturing Support

Some commentators have likened fiscal sponsorship to a pass-through arrangement where the sponsor is used as a vehicle to steer deductible contributions to improper parties and individuals. This description does not stand up to scrutiny. Indeed, even a cursory review demonstrates that CFS is best described as a "capacity nurturing relationship."

When, after careful consideration, comprehensive sponsors adopt a project, they are not merely extending a mission-consistent program their tax-exempt status in exchange for a fee. The unincorporated project is transformed into a program of the fiscal sponsor. The sponsor and the project are now one and the same. The sponsor has a vested interest in project success because success or failure is a reflection of the fiscal sponsor's abilities.

By effectively nurturing thousands of projects, CFS nonprofits such as Colorado Nonprofit Development Center, Community Partners, Earth Island Institute, Tides Center and TSNE have built up outstanding reputations for growing capacity and fostering positive societal transformations. In order to fulfill their missions and protect and enhance hard-earned brand equity, a fiscal sponsor must take all necessary steps to maximize the potential of the projects it serves.

When a comprehensive sponsor adopts a project, the project benefits from years of experienced staff and best practices with management of finance, administration, human resources, governance, compliance, and risk management enabling project teams to focus all their talents on project advancement. This expertise relieves project leaders of the need to invest precious resources in duplicating this infrastructure. It also frees up significant time leaders might otherwise spend hiring, training, monitoring and retaining the staff necessary to perform these critical administrative functions.

The back-office support structure inherent in CFS creates fluidity and continuity in project operations. With

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14 *See* Ongoing Compliance and Required Filings of a public charity at http://www.irs.gov/charities/charitable/article/0,,id=122670,00.html

15 Standard 4, *Standards, Id.*

16 The National Center for Charitable Statistics at http://nccs.urban.org/statistics/quickfacts.cfm

typical small to midsized standalone organizations, one to several individuals provide all of the above functions often while being tasked with other duties. If key staff becomes unavailable even for a brief period, other members of the organization, though not always qualified, must fill this void.

As staff attempt to perform job functions they are not trained to handle, while scrambling to fulfill their own duties, the mission inevitably suffers. The level of in-depth, consistent support comprehensive sponsors provide ensures stability and eliminates inefficiencies resulting in optimal usage of project funds and talent maximizing the societal return on investment.

The supportive role CFS organizations provide costs money. Like all nonprofits and for-profit entities, effective CFS requires that funds be allocated to cover administrative and back office expenses. Some CFS organizations, such as ***Third Sector New England,*** direct a portion of a project's funds towards administrative expenses only as the funds are spent by the project rather than raised. This expenditure-based cost allocation method most accurately accounts for the administrative expenses associated with actual support provided. CFS offers a superior level of quality most often at a cost lower than possible for small-to-medium independent nonprofits.

Even large projects may find that the quality service and support offered by CFS are advantageous and cost effective. Much of these savings are achieved through economies of scale. The large size and unified infrastructure of most CFS organizations create economies of scale otherwise unavailable to standalone smaller entities; maximizing administrative efficiencies while minimizing the costs attributable to back office support and overhead.

Large comprehensive sponsors are able to utilize their size and corresponding bargaining power to secure better coverage at favorable prices on health insurance coverage and other fringe benefits. The substantial benefits fiscal sponsors provide all employees make CFS projects enticing employment options; attracting well-qualified, passionate job applicants.

Capacity building is also emerging as key component of CFS; adding a wealth of value to the projects comprehensive sponsorship serves. Many sponsors now offer training seminars and webinars as complements to the back office support already provided. Through these offerings, projects are schooled by nonprofit leaders on diverse topics such as fundraising, strategic planning, information technology, and diversity and inclusion. Some sponsors further build capacity by providing projects with periodic assessments; identifying and crafting solutions to the myriad of issues nonprofits commonly face.

Surprisingly, terminology such as 'client' and 'fee' that does not accurately reflect the true legal structure of CFS relationships persists both within and outside the fiscal sponsorship community. Such terms add ambiguity and fuel skepticism among those not familiar with this brand of fiscal sponsorship. Widespread adoption of consistent language by the fiscal sponsorship sector will serve to eliminate confusion from project staff and prospective funders. Accurate terminology such as 'project' rather than 'client' and 'project administrative expense' instead of 'client fee' is gaining currency as a clearer understanding of the parameters of CFS evolves.

## Addressing Misconceptions

### Donor Advised Fund v. Fiscal Sponsorship

Despite the success and growth of fiscal sponsorship, certain criticisms and misconceptions surrounding the practice of CFS linger. One concern occasionally voiced by foundations is that fiscal sponsors are actually 'sponsoring organizations' that manage donor advised funds. The Pension Protection Act of 2006 created new rules and restrictions governing donor advised funds, putting foundations on heightened alert for any organization that could potentially be conceived as holding such funds. However, a brief examination of how a sponsoring organization maintaining donor advised fund is defined and how this definition differs from CFS makes it apparent that they are not the same or even remotely similar.

Prior to the Pension Protection Act, the term "donor-advised fund" was not defined in the Code or Regulations. IRC 4966(d)(2) now defines the term as "(1) a fund or account owned and controlled by a sponsoring organization, (2) which is separately identified by reference to contributions of the donor or donors, and (3) where the donor (or a person appointed or designated by the donor) has or reasonably expects to have advisory privileges over the distribution or investments of the assets.

All three elements of the definition must be met in order for a fund or account to be treated as a donor-advised fund."[17] The practice of CFS does not qualify under this definition.

Starting with the second prong, a distinct fund or account of a sponsoring organization must refer to contributions of a donor or donors, "such as by naming the fund after a donor, or by treating a fund on the books of the sponsoring organization as attributable to funds contributed by a specific donor or donors."[18]

Nonprofits practicing CFS do not maintain accounts that identify donors by reference. Rather, funds donated to specific projects are typically held in accounts referencing the project's name or purpose such as 'Immigrant Support Services' or 'Save the Right Whales.' No reference is made to the actual donor as that individual or entity is irrelevant for purposes of administering project funds. Once a donation is made, all control over those funds previously exercised by the donor ceases.

Cash and in-kind donations that support specific projects are frequently solicited by sponsored project staff. In this respect, a donor expects that the contribution will go towards that particular project of the fiscal sponsor; suits donated for immigrant job seekers should go to an immigrant support project and not towards whale research. However, once these suits have been donated, the donor will have no actual or implied influence as to how they will be used by 'Immigrant Support Services.' The same principles apply to monetary donations.

Allowing foundations and the general public to contribute to specific projects of 'Model A' sponsors is identical to the practices that large nonprofits operating multiple programs have successfully engaged in for decades. For instance, when a donation is made to the National Geographic Society, "donors can designate their gifts to one or more of the five major areas of the National Geographic Society's Mission Programs:

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[17] IRC 4966(d)(2) *see also Donor-Advised Funds Guidesheet* at http://www.irs.gov/pub/irs-tege/donor_advised_guide_sheet_073108.pdf

[18] *Dono- Advised Funds Guide Sheet Explanation* at http://www.irs.gov/pub/irs-tege/donor_advised_explanation_073108.pdf

education, research and exploration, conservation, cultures, and public outreach." [19]

Also offered are "additional designation opportunities ranging from purpose-specific funds to special initiatives."[20] For example, donors may make charitable contributions that will go into a fund dedicated to saving the Amboseli Lions.[21] If this were not possible, a separate nonprofit would have to be created to protect these lions, a time-consuming undertaking that may not be set up until the lions are further endangered.

Without the ability to donate to this specific project of National Geographic, individuals would not be able to offer direct financial support to the project and receive a tax deduction. Similarly, donations to Public Broadcasting Service (PBS) may be directed to local stations, many of whom encourage donors to designate support for specific programs.[22]

Donations to CFS projects and other nonprofits operating several programs are properly maintained in accounts that reference the project or campaign, never the individual donor. After these donations are made, donors have no actual or implied control of the disposition of said funds. CFS practitioners do not maintain donor advised funds and are therefore not sponsoring organizations.

## Comprehensive Fiscal Sponsorship for the 501(c)(3)

Although typically utilized on behalf of unincorporated projects, CFS is also an option worth considering for existing 501(c)(3) public charities. In today's competitive climate, even financially healthy nonprofits are seeking out ways to reduce costs and increase efficiencies. Other less fortunate organizations are being pressured to alter their mission and composition through merger. Although this trend is in its early stages, a small but growing number of nonprofits are embracing CFS as a model enabling both short-term regrouping and long-term stability.

As of this writing, the world is in the throes of a global economic meltdown. This crisis hit the independent sector before it steamrolled Wall Street and Main Street and is expected to impact nonprofits well after the dust has settled elsewhere. Many believe the nonprofit landscape will never be the same. Against this backdrop nonprofits are facing immense pressure to merge with other organizations or fold altogether. Much of this pressure is coming from foundations and government agencies that support nonprofit endeavors.

"Too many nonprofits!" is a popular but misguided mantra voiced by foundations struggling to come to terms with the economic crisis. Considering that the number of private foundations has ballooned by over 85% over the past 15 years - twice the growth rate of the nonprofits they serve[23] - the complaints are more than a little ironic.

Yes, the nonprofit sector has experienced substantial growth over the past decade but this came about as government social service programs were dramatically cut or eliminated, civil liberties were being attacked, income and wage disparities between rich and poor grew to unprecedented levels and the realities of climate

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[19] National Geographic Society, Donation FAQ page at http://www.nationalgeographic.com/donate/questions.html#specify
[20] *Id.*
[21] National Geographic's Maasailand Emergency Fund Donation page at https://donate.nationalgeographic.org/SSLPage.aspx?pid=608&srcid=608
[22] Support PBS at http://www.pbs.org/aboutpbs/aboutpbs_support.html
[23] National Center for Charitable Statistics

change were just beginning to be felt; precisely the times the need for charitable services would logically spike. This need remains as the wave of deregulated financial practices fueled by greed has left countless shattered lives in its wake and the devastating impacts of global warming intensify.

Nonprofits play a vital role in picking up the pieces and creating a sustainable future. Merger, though appropriate in certain circumstances, is a costly and immensely complex option that will not always achieve an optimal or even positive outcome.

Multiple nonprofits offering slight overlaps in services or populations served are not necessarily indicative of inefficiencies requiring remediation. Indeed, one commentator suggests that there are actually too *few* good nonprofits.[24] It's no secret that competition breeds innovation and drives efficiencies. The United States government has a mandate to protect the public from monopolies in the private sector and pursues this responsibility to the fullest extent of the law with an arsenal of antitrust attorneys. With a few narrow exceptions, consumers have a wealth of choices in selecting nearly all goods and services supplied by private businesses.

There is no rule or law dictating that only one nonprofit may offer a particular service in a given area. Having more players in the "marketplace of ideas" ensures that innovative ideas are brought to the forefront and old, worn-out models fall by the wayside rather than becoming institutionally entrenched. Further, although it may often appear that two nonprofits are performing identical functions, a closer examination will almost always reveal that their operations are substantially distinct or offer different 'flavors' within a general area.

Yet the consequences of merger can be devastating. Depending on the bargaining power of the parties, a nonprofit may find that post merger its mission is diluted or completely lost. The real losers are the constituents and causes squeezed through the cracks during these consolidations.

Most nonprofit inefficiencies reside at administrative and not programmatic levels. CFS addresses these issues offering a "safe haven" for merger-leery nonprofits, preserving their missions while providing high-level administrative support and the time and space to regroup. Unlike merger, there is never any sense that one organization is being 'conquered' by another, undermining employee morale.

Likewise, the organization retains its own brand identity and unique web presence. Absent are the turf battles over assets or programmatic control or direction since the sponsored project will continue to control its funding and programs. There is no potential board clash as boards may stay intact, providing an extra layer of oversight in conjunction with the fiscal sponsor. "Far from being a hostile takeover or a predatory acquisition that benefits one party only, a fiscal sponsorship transition, done properly, is a creative alternative whose objective is to enable the development and nurturing of grassroots solutions to community problems."[25]

Nonprofits transitioning into a CFS relationship go through a process similar to that of unincorporated projects, with a few minor variations. This transition is cheaper and far less complex than a merger or acquisition; outside consultants, accountants, and legal counsel are usually unnecessary. Mission compatibility

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[24] Masaoka, Jan, *Too Many Nonprofits? No -- There Aren't Enough Good Nonprofits*, The Blue Avocado at http://www.blueavocado.org/content/too-many-nonprofits-no-there-arent-enough-good-nonprofits
[25] Spack, Jonathan, *Let's Slow Down the M&A Express*, TSNE ED Forum at http://www.tsne.org/site/c.ghLUK3PCLoF/b.5073967/k.3DEE/ED_Forum__Slow_Down_the_MA_Express.htm

remains a threshold requirement. The employees of the nonprofit become employees of the sponsor, gaining access to attractive fringe benefits administered by the sponsor. Operating funds of the nonprofit are typically transferred into an account held by the sponsor in the name of the project. However, funds not needed to support project operations as well as other assets, both real and intangible, may be retained by the nonprofit in its own separate accounts.

A memorandum of understanding specifically tailored for nonprofit projects should clearly define the parameters of the relationship. If this option is exercised, meticulous records must be maintained by both fiscal sponsor and the nonprofit, fencing off assets subject to the sponsor's control from those that remain vested with the independent 501(c)(3).

While the project is under the supportive umbrella of a CFS practitioner, its corporate and 501(c)(3) will not be used in support of the CFS project's purposes. If all staff and assets are transferred to the sponsor, the nonprofit essentially goes into hibernation until the project resumes independent operations. When and if independent operations resume and the sponsored project is transferred back to the 501(c)(3), the entire fund balance and other assets residing with the sponsor are directed back to the nonprofit.

Undoing a merger can be even more complex than creating one, if not impossible. The process for terminating a relationship with a fiscal sponsor, addressed in the "Ease of Exit" section below is far simpler. CFS offers a cheaper, faster, less stressful alternative to merger. Any nonprofit feeling the pressure to merge should carefully consider all available options including CFS.[26] Likewise, financially healthy nonprofits simply interested in increasing back office efficiencies and renewing mission focus may wish to investigate what CFS has to offer.[27]

## Incubator Only?

Some observers mistakenly believe that fiscal sponsors are limited to serving as incubators for future independent nonprofits. However, like professional employer organizations[28] and other shared service models utilized by the private sector, fiscal sponsors frequently play a long-term role in the functioning of charitable endeavors.

As far as CFS practitioners are concerned, serving as an incubator to future nonprofits is the exception rather than the rule. These organizations are concerned with fostering positive and sustainable social change and are not preoccupied with the desire to churn out additional 501(c)(3) public charities. Results of the most thorough survey of fiscal sponsors to date indicate that less than half of the projects of fiscal sponsors with over 50 projects have sought to be independent 501(c)(3) nonprofits.[29] The rate of retention is as high as 80-90% with some organizations.

Although CFS practitioners generally adopt and foster the development of young, experimental projects, once these projects mature, they often remain sponsored programs. The advantages of CFS are by no means limited

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26 For more information see Spack, Jonathan, *Fiscal Sponsorship as a Nonprofit Merger Alternative* at http://www.tsne.org/site/c.ghLUK3PCLoF/b.4992133/k.CB58/ED_Forum__Fiscal_Sponsorship_as_a_Nonprofit_Merger_Alternative.htm

27 All members of the National Network of Fiscal Sponsors practice CFS. http://www.tidescenter.org/fiscal-sponsorship/nnfs/history/index.html. A national directory of fiscal sponsors can be found at http://www.fiscalsponsordirectory.org/

28 *See* National Association of Professional Employer Organizations at http://www.napeo.org/

29 *Fiscal Sponsorship Field Scan* at http://www.tidescenter.org/fileadmin/tc_pdfs/WP_FiscalSponsorFieldScan.pdf

to small or new organizations. The flexibility, reduced burden on project directors, greater capacity, professional expertise, and cost savings flow to fiscally sponsored projects of all sizes. These advantages, both measurable and intangible often render "leaving the nest" an unpalatable option for many if not most comprehensively sponsored projects.

## The Intangible Benefits of Comprehensive Fiscal Sponsorship

Every day, charitable organizations and their staff and volunteers add tremendous value to our society. This value is often impossible to measure or prohibitively expensive to quantify. A group offering companionship to the elderly in their last days may not add to our national GDP, yet has a profound effect on those served. An organization that facilitates physical activity and teaches inner city children healthy eating habits may be responsible for millions of dollars in medical cost reductions years down the road that it will never receive credit for. An environmental nonprofit that, through litigation, protects a water supply from pollution saves thousands of lives, though attributing a single saved life to that organization's actions can be elusive.

Likewise CFS provides projects that create societal value and advance culture with a wealth of benefits that are not readily identifiable and rarely mentioned. Nevertheless they are real and once a project becomes fiscally sponsored and these intangible benefits begin to accrue, projects often reevaluate their independent aspirations.

Because CFS staff work with a diverse group of projects, they gain valuable know-how that they are in a position to pass on to individual projects. Examples include spotting financial and human resource issues ahead of time, understanding the intricacies of funders' requirements, and thinking strategically about project needs. CFS projects are therefore in a better position to weather economic downturns, tactfully navigate potential human resource disasters, and stretch donor dollars. Beyond back office operations, several sponsors now provide their projects with capacity building services designed to infuse the projects with the capabilities and best practices that the sponsors themselves operate under.

These sponsors foster a culture of sharing, shared back-office operations being only one component of an accessible network created through CFS. Fiscal sponsors that have operated for decades offer their projects access to an extensive list of contacts and relationships they have cultivated over the years. Individuals and groups that have worked with comprehensive sponsors in the past realize the immense value these organizations bring and are frequently eager to make themselves available, extending expertise and contacts to sponsored projects. Individual projects themselves derive great value from sharing experiences, lessons, and best practices with one other.

Several organizations are taking the culture of sharing to another level, operating 'nonprofit centers'; buildings that offer both affordable and stable office space to nonprofits and fiscally sponsored projects.[30] Traditionally, nonprofits have been subject to the ebbs and flows of the real estate market. When rent rates balloon, these groups are often forced to relocate to the fringes of urban centers impeding access to public transportation and the constituents they serve. Nonprofit centers provide a solution to this persistent problem, offering consistent rents often below market value, shared conference spaces, IT support, and even lunchtime seminars and yoga classes.[31] Having significant numbers of mission driven groups in one location promotes

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[30] *See* The Nonprofit Centers Network at http://www.nonprofitcenters.org
[31] Sacha Pfeiffer, *A haven in a high-rent world,* The Boston Globe

collaboration and increases networking opportunities through both planned networking events and on an informal basis.

As noted, CFS furnishes projects with comprehensive personnel policies, liability insurance, financial and administrative expertise and keeps projects abreast of and trained on new government regulations as they arise. Having these reliable operational mechanisms in place affords project leaders piece of mind, eliminating many of the stresses that can derail an operation. This intangible quality that CFS offers cannot be underestimated.

A project leader's time and thoughts will not be sidetracked by the plethora of issues inherent in managing the back office operations of any organization. Project staff work towards mission fulfillment knowing that all administrative and compliance issues are being efficiently addressed. CFS keeps the engines of their projects humming, allowing passionate mission-driven project leaders and staff to focus on the activities that are core to the project's existence.

## Ease of Exit

Sometimes a project reaches a point in its development where it is determined that a split from its fiscal sponsor is appropriate. It is imperative that the process and terms of any split be anticipated and memorialized in the memorandum of understanding or similar agreement. Otherwise, unnecessary complications may occur. Under the typical memorandum of understanding, the project may retain the funds raised and allocated for it along with any real and intangible property it has developed so long as it attains its own 501(c)(3) tax-exempt status or locates another suitable fiscal sponsor.

For a number of reasons, projects occasionally wind up operations without being spun off into new entities. The project may have fulfilled its purpose or is no longer financially viable. Winding up a project's operations highlights the final advantage fiscally sponsored projects may realize: ease of exit.

When a nonprofit organization winds up its operations, it must do so in compliance with IRS requirements. This usually entails, at a minimum, completing Schedule N on Form 990 listing the disposition of organizational assets in excruciating detail.[32] When a CFS project terminates its operations, all assets previously maintained by the project will simply be spent on purposes in furtherance of the sponsor's mission.

Further, individual states have various regulations and procedures that must be followed when a registered entity dissolves. None of these complicated filing requirements are present when a fiscal sponsored project is terminated. The dissolution of the project is simply reflected on the fiscal sponsor's Form 990. The use of fiscal sponsorship eliminates considerable expenses (often legal) associated with complying with dissolution.

## Conclusion

Savvy, forward looking funders are taking notice of the numerous advantages that comprehensive fiscal sponsors offer and are becoming more receptive to funding programs that find homes at credible sponsors. These fiscal sponsors increasingly play the role of project authenticator vouching for a project's credibility to prospective funders. Becoming a program at a reputable CFS practitioner conveys several messages to foundations, other funders, and the public. It says: (1) this project has been through a thorough evaluation

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athttp://www.boston.com/news/local/massachusetts/articles/2008/04/02/a_haven_in_a_high_rent_world/

[32] *Termination of an Exempt Organization* at http://www.irs.gov/charities/article/0,,id=156422,00.html

process that determined it has the capacity to achieve its underlying objectives; (2) all back-office operations of the project are managed by competent, experienced professionals ensuring maximum transparency; (3) project staff receive proper compensation and preferable benefits, increasing retention and minimizing burnout; and (4) the project will be able to focus on the mission and not be derailed by administrative burdens and complex compliance issues.

A program utilizing CFS also communicates that it has the wherewithal to recognize its strengths as a passionate, mission-driven organization that properly addresses its need for efficient, seasoned back office support.

Once common terminology, "fiscal sponsorship" is still sometimes referred to – incorrectly – as "fiscal agency."[33] Fortunately, this outdated terminology is rapidly disappearing. Similarly, old assumptions regarding nonprofits and the social sector are being shed as an immense economic crisis, global in scope, demands innovative solutions.

For many years a premium was placed on the independence of organizations operating in the nonprofit sector even as the private sector realized the advantages offered through shared services, collaborative pricing, and strategic outsourcing. This thinking is both illogical and counterintuitive. Crisis breeds opportunity and organizations practicing CFS represent a piece of a young but rapidly maturing movement in the social sector that thrives on the sharing of resources and information.

Other pieces to the solution include the nonprofit centers now found throughout the world and alliances of nonprofits that turn over their back office operations to one supporting organization such as the MACC Commonwealth currently being pioneered in Minnesota.[34] Likewise, innovative ventures like Ann Arbor's Nonprofit Enterprise at Work (NEW), through their npServ™ system, offer nonprofits shared IT services that reduces hardware and software costs, increases reliability, enhances data security, and allows for easy remote access.[35]

These forward-thinking organizations and alliances breathe long-term stability into groups that, like themselves, are dedicated to strengthening the presence, voice and effectiveness of civil society. Though the methods employed vary, all of these groups enable nonprofits and progressive grassroots movements to focus on mission-related activities by assuming or sharing burdensome tasks that though essential, are not mission-related. By transferring jobs to organizations better-positioned to perform them efficiently and effectively, precious time and money are saved maximizing the potential impact of the nonprofit sector.

Crucial to the future success of CFS and the charitable sector in general is that the foundations and individuals providing financial support to nonprofits understand and embrace these solutions. The bottom line is that comprehensive fiscal sponsorship stretches charitable dollars further and more effectively than most standalone small to midsized and even many large nonprofits could ever on their own; offering a realistic, honest approach to not only survive, but excel in the challenges of our day and those that lie ahead.

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[33] Under the law of agency, an agent acts on behalf of another person or organization. That entity has the power to direct and control the activities of its agent. Using this terminology to describe the relationship between a 501(c)(3) and a project implies that the project exerts control over the nonprofit charity. To comply with IRS dictates and assure accountability, the sponsor must walk a fine line and play 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.

[34] MACC Commonwealth at http://macccommonwealth.org/

[35] Nonprofit Enterprise at Work (NEW) at http://www.new.org//index.php?option=com_frontpage&Itemid=1

# Appendix A

## Standards and Recommended Best Practices for Fiscal Sponsors



**The Purpose of Fiscal Sponsorship**

Fiscal sponsorship has evolved as an effective and efficient mode of starting new nonprofits, seeding social movements and delivering public services. Fiscal sponsorship means a nonprofit organization – a "fiscal sponsor" – assumes legal and financial responsibility for the activities of groups or individuals engaged in work that furthers the fiscal sponsor's mission and their own respective purposes.

Fiscal sponsorship confers significant potential benefits on the leaders of sponsored projects and the issues those projects address, permitting the efficient testing of ideas for addressing social and civic issues in a supportive, collegial atmosphere. Fiscal sponsors link civic innovators, activists and prospective service providers with experienced people who have extensive nonprofit organization experience and useful knowledge. They allow 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 conserve precious charitable funds by supplying a streamlined set of accounting, insurance, payroll, personnel and other systems – essentially one unified "back office" – to many different ventures more efficiently, with higher quality and at lower cost than if each of those ventures operated separately. Because they are typically organized as tax-exempt, charitable ventures themselves, fiscal sponsors permit project leaders – from the moment the sponsor agrees to accept the project – to legally solicit and receive charitable contributions from individuals and grants from private foundations. Fiscal sponsors place program implementation responsibility in the hands of project leaders, even as the fiscal sponsor stays carefully attuned to project financial and program performance and remains informed about, sometimes even active in the project mission and activities.

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

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

Recognizing the value of these goals to civil society and community development efforts around the world, fiscal sponsors have emerged and grown in size and capability over the last three decades in places as diverse as San Francisco, Los Angeles, Denver, Boston and New York City. In October of 2004, representatives of several fiscal sponsor organizations met to share what they have learned and to compare practices. As a result of the meeting, they agreed to cooperate in formulating a common set of standards and recommended best practices to inform their work and to guide others wanting to create or build fiscal sponsorship capability.

Members of the working group practice fiscal sponsorship on a comprehensive basis. That is, their organizations were created and operate with a significant – if not singular – operational emphasis on fiscal sponsorship. Still, many nonprofits engage in fiscal sponsorship activity on an "occasional" or "casual" basis. The working group members agreed that, while this practice is common, it carries certain inherent risks, and 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. While not endorsing the practice, the working group strongly suggests that occasional practitioners adhere to all of the standards that follow and, at a minimum, engage in all of the practices denoted with an asterisk (*).

## Standards and Recommended Best Practices

### Standard 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. The fiscal sponsor has a written statement of its mission.
B. *Active Mission Management. The fiscal sponsor integrates the intent of the mission into all of its organizational practices and selects projects for sponsorship that relate to its mission and charitable purpose.

### Standard 2. Community Stewardship

*The fiscal sponsor adheres to the highest 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.*

**Recommended Best Practices**

A. Public Benefit Concern. The fiscal sponsor, through its programs, services, staff and decisions, demonstrates authentic caring, compassion and concern for people, the human condition, the places people inhabit, and the condition of the physical systems upon which all life depends.
B. Source of Knowledge and Insight. The fiscal sponsor serves as an active, accessible source – through its staff, volunteers and project leaders as well as through active research and intentional learning – of knowledge about and insight into the people, causes and issues central to its mission.
C. Commitment to Advance the Field. The fiscal sponsor actively advances general community knowledge about and understanding of the field of fiscal sponsorship, including the standards and practices that promote excellence in the field.

**<u>Standard 3.</u> 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.

**<u>Standard 4.</u> Fiscal Integrity**

*The fiscal sponsor manages all funds, assets and other resources under its direct control with the highest 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 and is available for public examination.

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, does not expend funds dedicated for project purposes for any other purpose, unless ordered by a court of law or government agency.

F. *Pass-Through of Specific Costs. The fiscal sponsor discloses in advance of incurring them any charges, such as legal fees or insurance premiums, for which projects are liable.

G. *Systems for Handling Funds. The fiscal sponsor, for all funds in its care, establishes and maintains sound systems, policies, procedures and internal controls that are based on generally accepted financial and accounting principles and regulations including project expense sign-offs and approvals, written project agreements, and clear, line-item project budgets.

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.

**Standard 5. Administrative and Operational Integrity**

*The fiscal sponsor manages all administrative duties and responsibilities professionally and with the highest 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 the demands of its mission and that meet or exceed the support needs of projects.

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 or exceed the support needs of projects.

D. Sufficiency of Employment Protections. The fiscal sponsor extends to its core administrative staff, and strongly encourages in the operation of sponsored projects, competitive compensation (while requiring that all project and core staff receive a reasonable health and benefits package), safe and respectful working conditions and aggressive non-discrimination practices.

E. *Compliance with Terms of Grants and Contracts. The fiscal sponsor ensures 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. *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.

I. Non-Discrimination Policy. The fiscal sponsor has a written non-discrimination policy.

**<u>Standard 6.</u> Board Accountability, Ethical Conduct and Governance**
*The fiscal sponsor's board of directors governs ethically, avoiding both the appearance and actuality of conflicts of interest in conducting the affairs of the organization and in carrying out its legal, fiduciary and policy making responsibilities.*

**Recommended Best Practices**

A. Code of Ethics/Conduct. The fiscal sponsor's board of directors promulgates standards of ethical conduct for itself and for the entire organization, insuring that managers incorporate them into all organizational practices and, directly or by reference, into all written personnel policies, operational manuals, employment agreements and employee handbooks.
B. *Board Compensation-Setting Responsibility. The fiscal sponsor's board of directors sets the salaries of and retains sole authority over the hiring, evaluation and firing 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 community-based projects, and assures that a system exists for periodic formal 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 to ensure that members of the board of directors, paid and voluntary project leaders, project advisors and staff avoid any actual or apparent conflicts of interest.

**<u>Standard 7.</u> 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 projects in assessing new 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) 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 control of the project, its staff and its activities, and also obligates project leaders to adhere to the fiscal sponsor's organizational policies and operational procedures.

**<u>Standard 8.</u> 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 the highest 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 timely, accurate and comprehensive reports on project performance.
D. Sponsor-Donor Communication. The fiscal sponsor communicates as necessary and appropriate with project donor(s) 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 periodic 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.

**<u>Standard 9.</u> 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 the highest 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 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.