



Working with Established Organizations

An overview of fiscal sponsorship models for supporting exempt organizations.

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About Fiscal Sponsorship

A fiscal sponsor, or *commons manager* (our term), is a nonprofit backbone organization that provides shared corporate structure, finance, HR, legal, insurance, risk management and other resources among multiple semi-autonomous missions.

While nearly 60 years old, fiscal sponsorship has only recently started to mature as a field, as indicated by the previous slide. The legal structures for fiscal sponsorship were first catalogued by attorney Gregory Colvin of the San Francisco firm of Adler & Colvin. His landmark (and still only core text on the field), *Fiscal Sponsorship: Six Ways to Do It Right*, was first published in 1993. Colvin's naming conventions and work did not create *new* structures, but brought some intentional study to practices already in existence.

Colvin organizes his work around classifying various ways in which distinct nonprofit missions could share common backbone resources through a *sponsor-sponsee* relationship. His taxonomy of "models" is structured according to how operationally and legally "close" the sponsor is to the sponsee (program member), as determined by the amount of authority and responsibility the sponsor has over the sponsee. The resulting catalogue of models runs from "Model A", where the relationship is most direct/close--the program is internal to the sponsor--to approaches where there is more legal "distance", such as "Model C" where the sponsor is re-granting funds to a separate individual or entity, and so on.

Of all of the models, the most commonly utilized are **Model A** (sometimes referred to as "comprehensive" or "direct project" fiscal sponsorship and occasionally paired with the "disregarded LLC" or **Model L**) and **Model C** (sometimes referred to as "pre-approved grant relationship", or incorrectly as the "passthrough" model). The following slides outline these different models and their shared supports.



History of Fiscal Sponsorship

Third Sector New England (now TSNE MissionWorks) creates the first “Model A” fiscal sponsorship practice.

The first case law affirming fiscal sponsorship (“National Foundation vs. U.S. Court of Claims”).

The National Network of Fiscal Sponsors (NNFS) is founded with support from the W. K. Kellogg Foundation.

1959

1973

1987

1993

2004

2012

The first law practice focusing on fiscal sponsorship is founded.

The IRS weighs in stating in a circular that there is “nothing inherently wrong with fiscal sponsorship”. Greg Colvin publishes *Fiscal Sponsorship: Six Ways to Do It Right*.

The IRS’s Advisory Committee first recommends fiscal sponsorship as an alternative to the stand-alone 501(c)(3).



Why work with established exempt orgs?

- Lend a *stabilizing* hand to organizations struggling with the economic impacts of the pandemic or other challenges.
- Provide a strategic *strengthening* and *capacity building* hand to organizations poised for growth and/or pivot.
- Grow and diversify your community of projects (“portfolio”) as a fiscal sponsor: *collective capacity building* affords strength in numbers.
- Provide a platform for transformation or wind-down, preserving valuable resources that may continue to benefit communities.

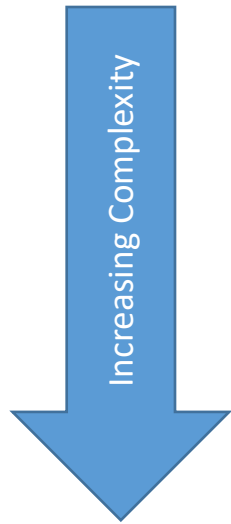


Important Considerations

- **Due diligence, risk assessment, and clear strategic framework for wanting to work with established organizations.**
- **Internal capacity assessment and readiness of your team and key partners and vendors to enter into this work with you.**
- **Clear stance on how equity considerations will influence the choice of which organizations to work with and how to structure the relationship.**
- **Clear strategy for what kinds of organization cases you want/can take on: i.e., stabilization may be more labor intensive than strategic growth.**



Models for Consideration

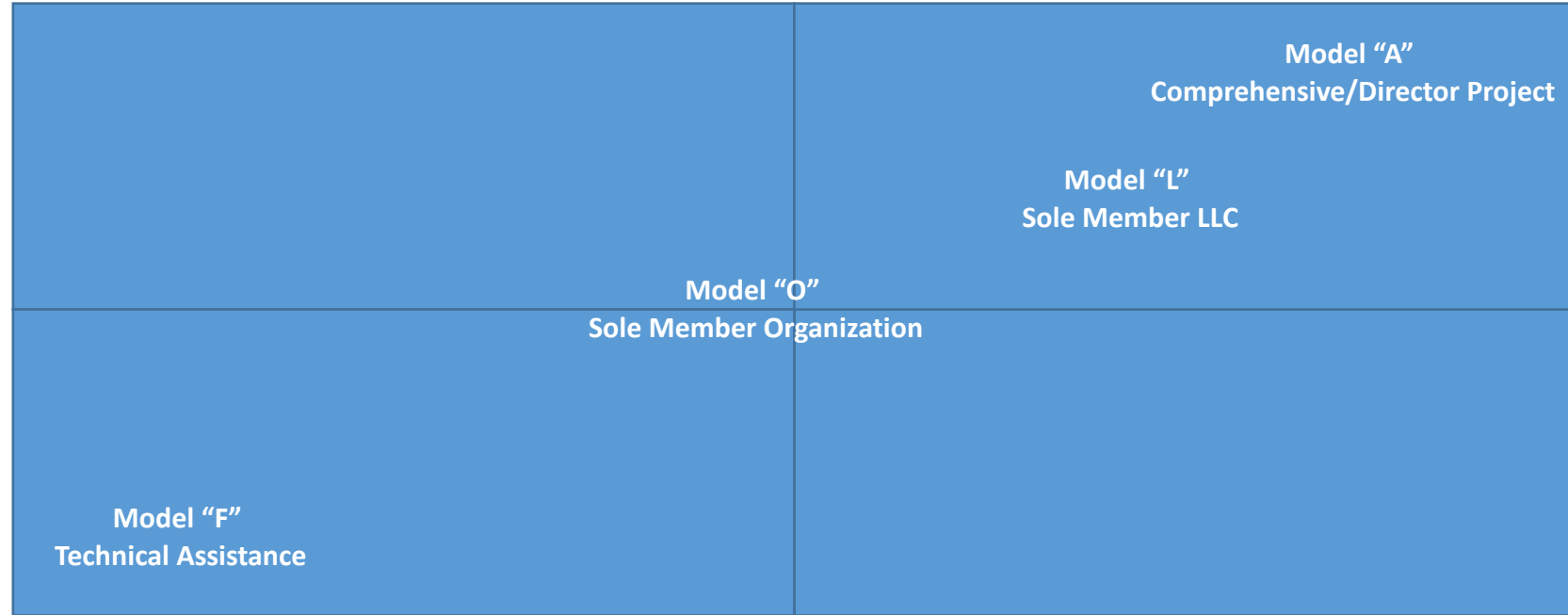
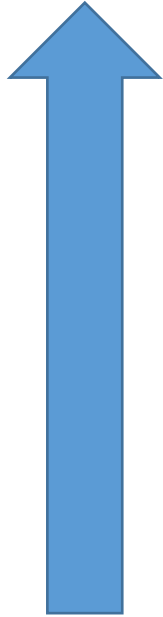


- **Model "F" – Technical Assistance Relationship**
- **Model "A" – Comprehensive or Direct Project Relationship**
- **Model "L" – Disregarded Entity or Sole Member LLC Relationship**
- **Model "O" – Sole Member Organization Relationship (NEW!?)**



Models for Consideration

Increasing structural/legal "closeness" and shared control
(co-management/co-fiduciary)



Increasing ability to share/consolidate finances, compliance, insurable risk, HR/ERISA matters

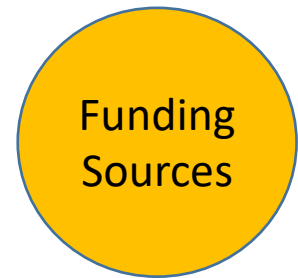


Potential Services

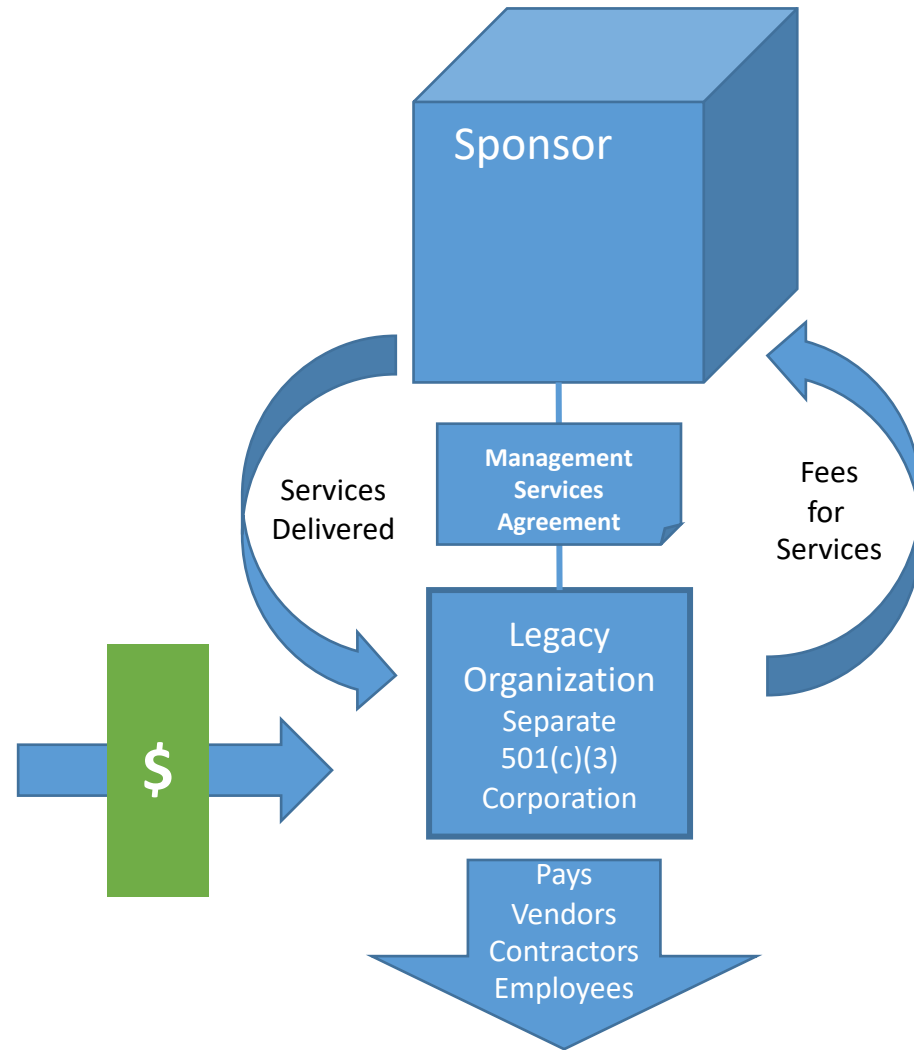
- Financial management, accounting, bookkeeping
- Risk management, insurances, and controls/risk training
- Human resources management and benefits provisioning/management
- Legal support, contract compliance, regulatory/tax compliance
- Impact measurement and operating assessment
- Marketing, fundraising, and other resource development support
- Various strategic and capacity building consulting
- Branding, identity, and strategic/crisis communications
- Community co-learning and knowledge building
- Others...



Model “F” – Technical Assistance



Foundation Grants
Government Grants
Corporate Gifts
Individual Gifts
Earned Income



Attributes

- Arm’s-length, sub-contracted relationship
- Complete corporate independence
- Fee for service with à la carte flexibility
- Independent Revenue/Expense Streams
- Boards remain completely independent

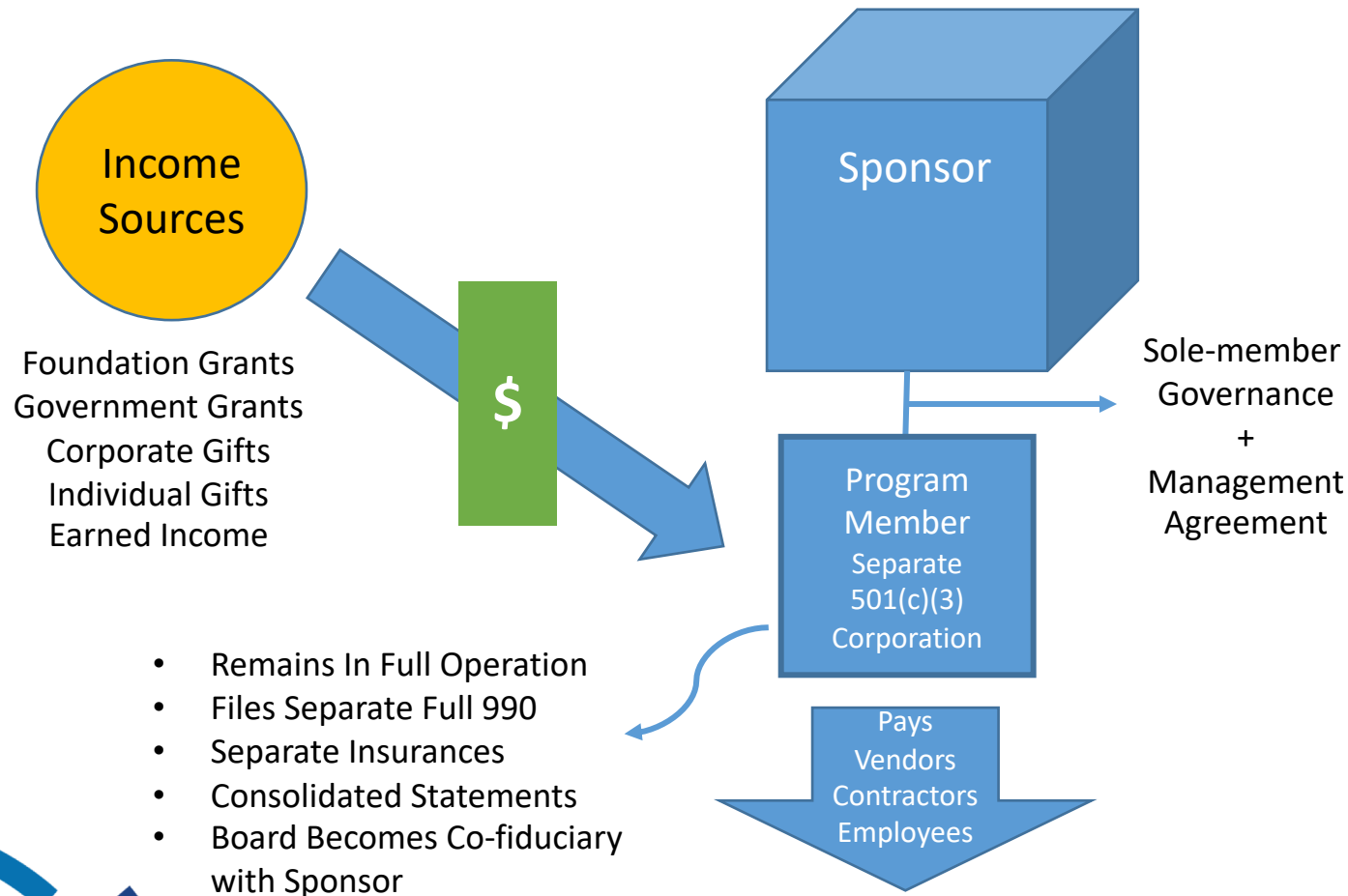
Potential Benefits

- Below-market fees and customized supports
- No legal restructuring of assets/liabilities/governance
- Fairly simple/conventional relationship to establish
- Complete corporate independence maintained

Potential Risks

- Reliance on partner/client systems/controls/policies
- Unrelated Business Income Tax (UBIT) risk/cost
- Reliance on “sales cycle”/less mutual commitment
- Limited ability to “save the client from itself”
- Reputational risk of failure from poor policies/capacity

Model “O” – Sole Member Organization Relationship



Attributes

- Close, whole/partial control relationship
- Legacy Org simply *moves under* sponsor
- Core Model A services/resources (Model “A-O”)
- Co-fiduciary and co-management relationship
- Boards may be distinct but share common fiduciary
- Sponsor responsible for compliance (both entities)
- HR/vendor relationships remain with Legacy Org

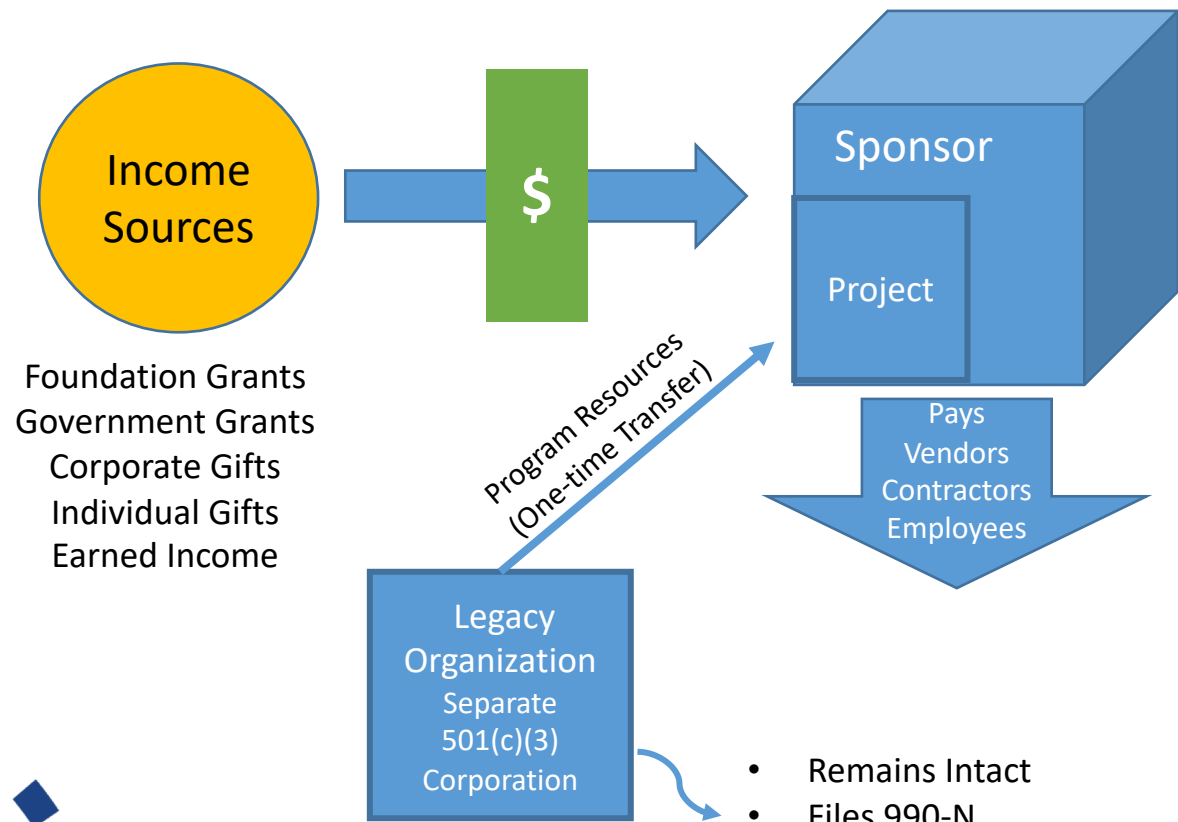
Potential Benefits

- Compliance/insurance costs – managed by sponsor
- Programs operate by Legacy Org/sponsor is back office
- Shared legal, compliance and operating
- Employee liabilities held or not held by Legacy Org
- Ease of spin out - simple reverse change in control
- Avoids UBIT risk in providing/charging for services
- Legacy Org board remains in place and active

Potential Risks

- Legal and compliance risks in operating together
- Legacy Org board still retains fiduciary responsibility
- Liabilities or negative events of Legacy Org

Model “A” – Comprehensive or Direct Project



Foundation Grants
 Government Grants
 Corporate Gifts
 Individual Gifts
 Earned Income

Legacy Organization
 Separate 501(c)(3)
 Corporation

- Remains Intact
- Files 990-N
- Limited Operation
- Board becomes Advisory to Project

Attributes

- Close, internal program relationship
- Legacy Org’s program is acquired by sponsor
- Core Model A services/resources, often bundled
- Co-fiduciary and co-management relationship
- Boards may be distinct but share common fiduciary
- Sponsor responsible for all legal and compliance
- HR/vendor relationships move to sponsor

Potential Benefits

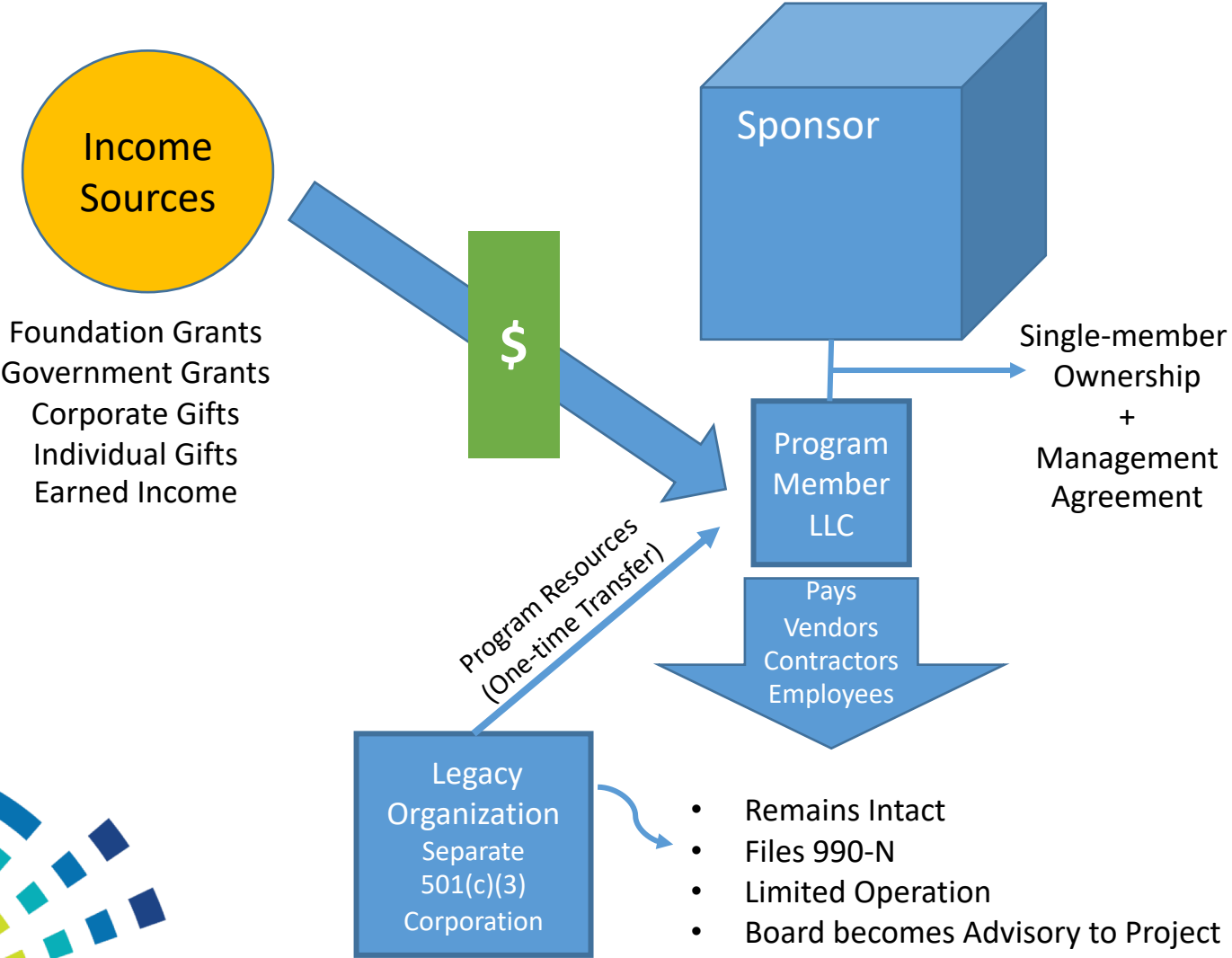
- Consolidated (lower) compliance/insurance costs (Legacy Org reduces/eliminates these costs)
- Programs are co-operated with sponsor’s back office
- Legal, compliance and operating risks are consolidated
- HR management and benefits are shared
- Legacy Org board remains in place and active

Potential Risks

- Legal, compliance and operating risks are consolidated
- Legacy Org board still retains fiduciary responsibility
- Dormancy prohibited by IRS, possible challenge
- Liabilities or negative events of Legacy Org



Model “L” – Disregarded Entity or Single-member LLC



Attributes

- Close, wholly owned program relationship
- Legacy Org’s program is acquired by LLC
- Core Model A services/resources (Model “A-L”)
- Co-fiduciary and co-management relationship
- Board of Legacy Org can be board of LLC
- Boards may be distinct but share common fiduciary
- Sponsor responsible for all legal and compliance
- HR/vendor relationships move to LLC

Potential Benefits

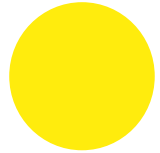
- Consolidated (lower) compliance/insurance costs (Legacy Org reduces/eliminates these costs)
- Programs operated through LLC with sponsor back office
- Legal, compliance and operating risks attach to LLC
- Employee liabilities held by LLC, benefits by sponsor
- “Portability” in the case of spin out
- Legacy Org board remains in place and active

Potential Risks

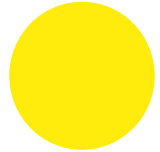
- Complex model to operate
- Legal, compliance and operating risks contained in LLC
- Legacy Org board still retains fiduciary responsibility
- Dormancy prohibited by IRS, possible challenge
- Liabilities or negative events of Legacy Org



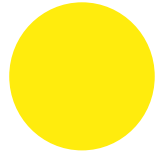
Shared Operating Benefits



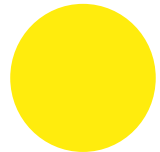
More equitable access to human, knowledge, financial, and systems capital.
Sharing leads to more sustainable, affordable, and higher quality supports.



A supportive network of peers and friends and a platform for advocacy.
There is safety and case making in numbers.



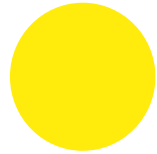
Opportunities for creative collaboration and partnership.
Working more closely together amplifies intentionality and serendipity.



Ability to grow, contract, and pivot, as well as respond quickly to crises.
A platform for growth and reinvention and collective response to a changing environment.

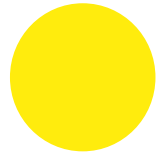


Shared Economic Benefits



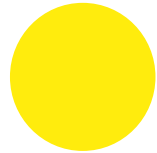
Fixed costs become variable costs.

Revenue sharing and monthly flexibility make fixed costs easier to carry.



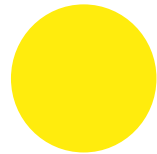
All the benefits of restructuring without the muss and fuss.

All of the efficiencies of a merger at a fraction of emotional and financial cost.



A platform for collaboration, co-employment, and shared solutions.

Cohorts of members can share employees and sourcing with greater ease.



A platform for managing start up, re-structuring, or wind down.

A transition resource for organization, re-organization, or ending.





Interested in help implementing these models for organizations in your community? Ask us about [Explorer](#) and [Commons](#) membership.

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