THE CHICAGO COMMUNITY TRUST

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Fiscal Sponsorship “Cheat Sheet”

What is fiscal sponsorship?

A fiscal sponsor is a nonprofit 501c3 organization that provides fiduciary oversight, financial management, and other administrative services to help build the capacity of charitable projects that do not have their own 501c3 charitable status. “Fiscal sponsorship” refers to the formal agreement between the fiscal sponsor organization and the sponsored project/organization, typically documented in a memorandum of understanding or contract. The role of the fiscal sponsor can include performing many different administrative functions on behalf of the sponsored organization or program, including taking on the responsibility of receiving and administering charitable contributions on behalf of the funded organization. Some fiscal sponsors do a lot more, such as performing back-office functions. Fiscal sponsors typically charge an administrative fee for their services, which is usually a percentage of the budget of the sponsored organization or program.

Why do organizations or projects choose fiscal sponsorship?

Fiscal sponsorship is often used by newly formed nonprofits that need to raise money during the start-up phase before being recognized as tax-exempt by the IRS. Using a fiscal sponsor enables a program or organization that does not itself qualify as tax-exempt to attract funding for its operations that will – through the fiscal sponsor – be tax-deductible to donors. Therefore fiscal sponsor arrangements benefit organizations or programs that are not tax-exempt by providing a flow-through pathway for revenue that the organization may not otherwise be in a position to receive.

Some organizations – even those with 501c3 status – find that utilizing a fiscal sponsor to outsource administrative responsibilities, including back-office tasks or those relating to fundraising and disbursement of funds, is the right business model for them. (This is particularly common for organizations with a very small or volunteer-run staff.)

When is an applicant or grant recipient organization required to use a fiscal sponsor?

Organizations that do not have 501c3 status may work with a fiscal sponsor to receive grants from the Trust and its affiliates. Organizations that use a fiscal sponsor to receive grants must ensure that their fiscal sponsor organization has an up-to-date Organization Profile in GrantCentral at the time of application submission. Grants made to an organization that uses a fiscal sponsor are legally made to the fiscal sponsor organization. The grant agreement must be signed by the signatory from both the fiscal sponsor and the sponsored organization.

The Trust does not provide advice to applicant or grant recipient organizations on whether they should use a fiscal sponsor to receive grants and does not provide recommendations regarding specific fiscal sponsors.

Is the Due Diligence process different when an applicant/grant recipient uses a fiscal sponsor?

Yes, due diligence needs to be conducted on both the fiscal sponsor and the sponsored organization. In particular, you must confirm that the fiscal sponsor has the appropriate financial management policies and practices in place and strong governance structures to ensure they can undertake the responsibilities required of a fiscal sponsor. Reach out to grants management if you need help determining if the fiscal sponsor has the appropriate financial management and governance structures in place to serve as a fiscal sponsor for an applicant or grant recipient.

Is the approval process different when an applicant/grant recipient uses a fiscal sponsor?
No, the grant goes through the same approval process steps as any other grant made by the Community Impact team. However, it is important to note the following:

- The grant is legally made to the fiscal sponsor organization as the steward of the grant funds
- Both the fiscal sponsor signatory and the grant recipient signatory must sign the grant agreement.
- Payments are sent directly to the fiscal sponsor organization

Can a sponsored organization switch fiscal sponsors after the grant has been approved during the grant term?
No, once a grant is approved by the CEO or the Board, the grant recipient cannot switch to a new fiscal sponsor because the grant has been approved for the original fiscal sponsor. If a grant recipient must change their fiscal sponsor after grant approval, the grant must be rescinded and re-approved to the new fiscal sponsor.

Can a non-501c3 organization receive a grant if it does not use a fiscal sponsor?
In some instances, yes, but grants made to non-501c3 organizations not using fiscal sponsorship require careful planning and additional due diligence above and beyond the existing due diligence and approval processes. Additional monitoring and reporting are also needed during the grant and close out the grant. The grant applicant must take these steps well before the grant is approved, at the time the organization is invited to submit a proposal to the Trust:

- Determine whether the organization you want to invite to apply for a grant is a 501c3 organization or not (check their GrantCentral organization profile, ask Grants Management to check Guidestar, or ask your contact at the organization).
- If the organization is not a 501c3 organization, ask your contact at the organization whether they use a fiscal sponsor to receive grants. If they do, Grants Management can assist in making sure the fiscal sponsor organization has a profile in GrantCentral.
- If they do not use a fiscal sponsor and the grant will be made directly to a for-profit or other non-501c3 entity, determine the following:
    1. Ensure the grant will be used appropriately in furtherance of specific grant-funded purposes (which should be consistent with the Trust's goals or mission);
    2. Ensure the grant recipient can provide evidence (e.g., narrative and financial report) of the grant's use and impact; and
    3. Ensure that the grant will not be unrestricted or used for general operating expenses. It may also be appropriate to require that the grant be segregated from the grant recipient's general funds, not only on paper but also by maintaining the grant funds in a separate bank account to prevent them from being comingled with the grant recipient's general funds.