

Fiscal Sponsorship FAQs

What is fiscal sponsorship?

A fiscal sponsor is a tax-exempt organization, recognized under section 501(c)(3) of the Internal Revenue Service (IRS) code, that provides fiduciary oversight, financial management, and other administrative services to help build the capacity of charitable projects that do not have their own 501(c)(3) charitable status. “Fiscal sponsorship” refers to the formal agreement between the fiscal sponsor organization and the sponsored project or organization, which is typically documented in a memorandum of understanding (MOU) 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 sponsored 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 for-profit entities that conduct some charitable activities, and by newly formed nonprofits that need to raise funds before they are officially 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 including those that *already* have 501(c)(3) status – find that utilizing a fiscal sponsor to outsource administrative responsibilities, including back-office tasks, and/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 grantee organization required to use a fiscal sponsor?

Organizations that are not recognized as tax-exempt under section 501(c)(3) of the IRS code are expected to partner with a 501(c)(3) designated fiscal sponsor in order to apply for and receive grants from the Chicago Community Trust. Both the sponsored organization and the fiscal sponsor organization should maintain separate Organization Profiles in the [GrantCentral](#) portal. Each organization is required to complete and certify its own Organization Profile in order for a fiscally sponsored organization to submit a funding request to the Trust.

How are grants made to fiscally sponsored organizations?

After the Trust approves a grant to a fiscally sponsored organization, a grant agreement is signed by both the fiscal sponsor and the sponsored organization. All grant disbursements are made directly to the fiscal sponsor organization, which then distributes the funds to the sponsored organization or project. If any reporting is required for the grant, the sponsored organization is responsible for compiling and submitting reports, though they may work with the fiscal sponsor organization to prepare various report materials.

Additional Resources

- Candid: <https://learning.candid.org/resources/knowledge-base/fiscal-sponsorship/>
- National Council of Non-Profits: <https://www.councilofnonprofits.org/tools-resources/fiscal-sponsorship-nonprofits>
- Nonprofit Quarterly: <https://nonprofitquarterly.org/fiscal-sponsorship-a-balanced-overview/>
- Network for Good: <https://www.networkforgood.com/resource/fiscal-sponsorship-nonprofits/>