



TRANSGENDER  
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CENTER

[www.transgenderstrategy.org](http://www.transgenderstrategy.org)

# FISCAL SPONSORSHIP: WHY, WHEN, AND HOW

The Transgender Strategy Center (TSC) supports transgender-led groups and projects in building their capacity to secure and manage funding and increase long-term sustainability of the vital work of these groups.

Many grassroots groups are faced with a key fiscal decision when they are ready to start an organization: is it best to form an independent 501(c)(3) nonprofit organization (nonprofit) or to seek out a fiscal sponsor? This important decision can sometimes feel overwhelming in terms of discerning the best path forward. Communities that are less well resourced with funding tend to be those that face the most marginalization and oppression, and the process to obtain nonprofit status can be arduous and costly. An avenue that many groups employ to access grants aimed at charitable entities and purposes is fiscal sponsorship. TSC developed this overview of fiscal sponsorship to facilitate the ability of groups to make the best decision for their circumstances, needs, and goals.

There are different models of fiscal sponsorship. A “pre-approved grant relationship” model is an informal model that involves an emerging or new group asking a nonprofit known to them to serve as their fiscal sponsor. This is sometimes called a “pass-through” organization because there is little direct involvement from the fiscal sponsor in obtaining and managing the funds. The fiscally-sponsored group pursues grants and receives basic fiscal assistance in administering the funds.

This resource, however, will focus more on a comprehensive fiscal sponsor (CFS) model, where the nonprofit offers a range of administrative services to the fiscally-sponsored group for a set fee (usually a percentage of every grant).

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## Frequently Asked Questions

### ■ What is a comprehensive fiscal sponsor?

In a comprehensive fiscal sponsorship (CFS), an unincorporated group partners with a nonprofit organization with a compatible mission and “borrows” the nonprofit’s status and ability to receive charitable grants and tax-deductible donations. The fiscal sponsor, in turn, performs certain administrative tasks and is charged with legal and financial oversight, while the unincorporated group focuses on delivering services and running programs. The fiscal sponsor charges an administrative fee based on a percentage of the income the group earns via grants and donations. Some administrative tasks the fiscal sponsor executes for the unincorporated group include bookkeeping and budgeting, grants management, legal assistance, human resources; and payments to staff, vendors, and contractors. In many instances, the fiscal sponsor produces financial reports for funders, although it’s important to note that the unincorporated group also must submit its own financial reports detailing how the grant(s) were spent.



## ■ Why does it matter that our fiscal sponsor's mission is a good fit for our project?

The relationship you have with your fiscal sponsor is critical to your project's success and sustainability. It is helpful if the fiscal sponsor understands the issues facing trans communities and the importance of your work. Alignment in values is a strong indicator of meaningful allyship and fruitful partnership. Conversely, a lack of congruency with your missions creates the potential for friction. For example, you do not want to educate your fiscal sponsor to get your work done. Vetting a fiscal sponsor is vital. Your due diligence should include speaking with other trans-led groups about their experience working with the fiscal sponsor. It may also be helpful to ask the fiscal sponsor if it has worked with LGBTQ or trans-specific projects.

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## ■ How long does it take to become fiscally sponsored?

It depends as each fiscal sponsor has a process for selecting and onboarding new groups and projects. Some fiscal sponsors have dedicated staff to manage fiscal sponsorship; they tend to process applications in a speedier manner. Similarly, some fiscal sponsors have deadlines for applications while others have rolling deadlines. Processing time for applications can be one of your key considerations when researching a fiscal sponsor.

## ■ How much does fiscal sponsorship cost?

Most fiscal sponsors charge an administrative fee to cover the costs associated with managing the fiscal sponsorship relationship. Generally, this fee is a percentage of the unincorporated group or project revenue. The percentage must be specified in your fiscal sponsorship contract, which is commonly known as a "Memorandum of Understanding" (MOU). Fees vary, but a standard rate is 10-15% of generated income (grants and donations). Grants that demand more complex management (such as federal funds) can incur a higher fee.

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## ■ How fast will a fiscal sponsor get us what we need to run our project effectively?

Some of the administrative tasks that a fiscal sponsor undertakes include receiving funds obtained by you via grants or individual donations, making those funds available to you (minus its administrative fee) through check or wire transfer, producing acknowledgement letters for your donors to serve as their tax-deduction receipt, and extracting financial data to populate reports to submit to your funders (when applicable). In some instances, a fiscal sponsor may offer additional operation support, such as accounting and payroll services, so if that's a service you are looking for, that should become part of your research. No matter what suite of services you require, a good rule of thumb is to ask comprehensive questions of your potential fiscal sponsor.

## ■ Will we be able to control how money is spent?

When you submit a grant application to a funder, it must contain a budget for expenditures to be made with the grant funds. This document is your guide for how to allocate the monies. Your fiscal sponsor releases the funds to you according to its system: pass-through fiscal sponsors cut and deliver checks to you as soon as these funds clear the bank. A CFS might have a different process in which you first must submit an "invoice" for a payment linked to a line item in your budget or for an expense that has already been incurred.



**Your expenses must adhere to the rules of all charitable donations according to the Internal Revenue Service (IRS) that pertain to 501(c)(3) nonprofit organizations:**

**“Expenditures have to match the terms of grant agreements and contracts you have with funders. Expenditures have to comply with laws, regulations, and accounting standards governing the use of nonprofit funds.”**

In other words, your expenses must follow closely the terms of your grant agreement (contract) with your funder, which will refer to the budget you submitted when requesting the grant. If there are major changes to your budget, you will need to communicate this to your funder and fiscal sponsor.

### **■ Is it easy to leave a fiscal sponsorship when a group would like to become a 501(c)(3)?**

For some unincorporated groups, a fiscal sponsorship is a short-term option until the group is able to secure its own 501(c)(3). For other groups, 501(c)(3) status is not necessary for the long term or even desirable. In either case, your MOU must spell the terms of the fiscal sponsorship and include the time period for the relationship and a clause for ending it.

### **■ What other services are included in fiscal sponsorship, beyond accounting?**

Within the CFS model, the sponsored group or project may receive financial management services like invoice processing and bill payment, payroll and benefits administration, liability and other insurance, inclusion in an annual audit, and other technical support. The fiscal sponsor will supply your group with financial information to share with your funders. Some fiscal sponsors also offer a menu of additional services such as consulting, executive coaching, IT services, legal consultation, meeting space sharing, etc., either at no cost or for an additional fee.

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### **■ What is the role of the sponsor’s board of directors, compared to our advisory board?**

A CFS may require a group or project to have its own advisory board, with a majority of members serving as volunteers and advising strategic programmatic activities. The board of directors of the CFS has legal oversight and financial responsibility for all sponsored projects. However, the board of directors of the CFS generally defers strategic and programmatic decisions to projects’ advisory boards and senior staff.

### **■ Does the fiscal sponsor own any materials we develop?**

It is important to understand how a fiscal sponsor operates in this area. In most CFS arrangements, the sponsoring organization owns the assets and materials developed while it serves as the sponsor. However, when a project leaves to either go to a new fiscal sponsor or become a 501(c)(3), the fiscal sponsor typically releases all ownership back to the project. This should all be spelled out in any agreement you are asked to sign.

### **■ Do funders prefer projects they support to have their own 501(c)(3)?**

Funders in general do not have a preference for funded groups to have a fiscal sponsor or have 501(c)(3) status, if the mission and work of the funded group aligns with the funder’s own mission and goals. However, few funders offer grants to groups that don’t have a clear and definite organizational and administrative structure. For groups that are just emerging, a CFS can be a conduit for defining that structure and receiving and managing grants and donations and embark on a path to financial solvency.



## ■ Are there legal papers we will be expected to sign?

The terms of the partnership between your unincorporated group and the fiscal sponsor will be defined in a document called a “Memorandum of Understanding” (MOU). This legal agreement includes language about your group or project becoming a legal part of the sponsoring organization, terms of employment and project management, who holds decision-making authority, the role of an advisory board, property rights, and terms for the dissolution of the partnership. This is a crucial document to review carefully before signing.

## ■ What are some red flags we should be aware of in choosing a fiscal sponsor?

Mission- and value-alignment between your unincorporated group and the potential fiscal sponsor is crucial. For trans-led organizations, an added layer of consideration is the fiscal sponsor’s own trans competency, or willingness to learn how best to support your trans-led group. Another sign to spot is the fiscal sponsor’s administrative skills and fiscal sponsorship infrastructure. For example, how many groups do they fiscally sponsor? Can you contact them and ask for references? Since you are actually paying a fee for a fiscal sponsor, you are empowered to be selective in picking the right organization.

## ■ Why would we choose a comprehensive fiscal sponsor rather than a nonprofit we know that is willing to help us out?

In some circumstances, the most efficient solution might be to partner with a nonprofit organization with whom you already have a working relationship and can help administer your funds in a streamlined manner. This is commonly known as a “pass-through” fiscal sponsorship. However, if you are seeking a fiscal sponsor that will support your group with complex administrative tasks (many of which have been outlined in the Q&A above), a CFS is your best option.

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## How to Find a Fiscal Sponsor

For a comprehensive search of organizations that offer fiscal sponsorship services, you may start with the National Network of Fiscal Sponsors’ directory at [www.fiscalsponsordirectory.org](http://www.fiscalsponsordirectory.org).

For more information contact TSC at [info@transgenderstrategy.org](mailto:info@transgenderstrategy.org).