



# What is Fiscal Sponsorship?

So many people in our community want to solve a problem or make a difference. They are excited to get started, but starting a nonprofit is difficult and expensive. Luckily a nonprofit is not the only way to serve. Fiscal Sponsorship is a common alternative to creating a new nonprofit.

**Fiscal Sponsorship is an arrangement between an existing 501(c)(3) nonprofit and a project, program, or even another nonprofit. The sponsor extends its tax-exempt status to the project so it can receive food or funding or leverage support from a foundation, government agency, or other tax-deductible source.**

The Fiscal Sponsor provides fiduciary oversight, financial management, and other administrative services to strengthen the ability for charitable projects to succeed. **The Fiscal Sponsor assumes responsibility for compliance and risk; the sponsored project gives up autonomy in exchange for borrowing the credibility of the sponsor’s 501(c)(3) status.** A written agreement, reviewed regularly, defines the specifics of any fiscal sponsorship relationship. Regular communication is key to fiscal sponsorship success.

## Table of Contents

Levels of responsibility.....	2
Fiscal Sponsorship for food organizations.....	2
WSDA Food Assistance – Lead Agency relationship .....	3
Lead Agency and its partners.....	3
1. Options for pantries, meal programs, activities, or projects (not nonprofits) .....	4
2. Option for nonprofit needing helping with a grant.....	5
Agreements .....	5
Four Common Fiscal Sponsorship Partnerships .....	6
Compliance roles .....	7
Board roles and responsibilities.....	8
Steps to implement Fiscal Sponsorship.....	9
FAQ.....	10

This guide is accompanied by a set of tools and videos to help you implement a fiscal partnership. Visit [www.wafoodcoalition.org/fiscalsponsorship](http://www.wafoodcoalition.org/fiscalsponsorship) to access all the materials.

"Fiscal Sponsorship for Food Organizations" was developed by the Washington Food Coalition with support from the Washington State Department of Agriculture.

*This resource is provided for instructional purposes only. It does not constitute legal advice.*




**Washington  
Food Coalition**

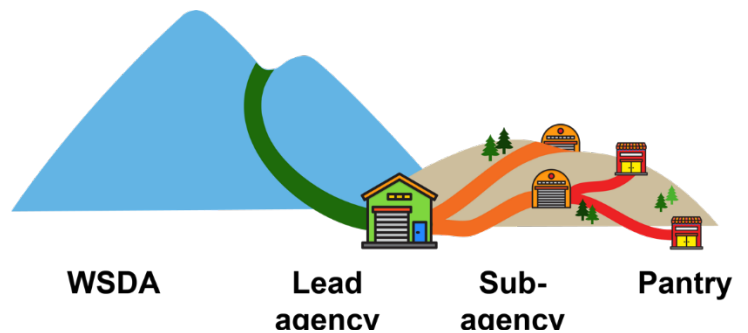


## Levels of responsibility

Food distribution in Washington State involves four levels of responsibility:

Level	Structure	Role
	Washington State Department of Agriculture Food Assistance (WSDA FA)	WSDA Food Assistance (WSDA FA) sets guidelines, provides food and funding from a variety of sources, and ensures compliance with federal and state regulations.
<b>Lead Agency</b>	Nonprofit, Federally Recognized Tribe, or Public Agency	WSDA FA's primary relationships are with Lead Agencies. These are organizations that have been designated to manage specific food distribution programs or initiatives.
<b>Sub Agency</b>	Nonprofit, Federally Recognized Tribe, or Public Agency	Sub Agencies are nonprofits, Tribes, or churches contracted by Lead Agencies to distribute food.
<i>Pantry, meal program, activity, or project</i>	Not a nonprofit	Pantries and meal programs (or any similar food distribution activity) are usually not nonprofits. They distribute food or meals within a local community or setting. This category includes any type of food assistance delivered by a group that isn't incorporated as a nonprofit.

We can think about the relationship between all four as a river system. A mountain collects water that flows downstream. The water flows into rivers, which become tributaries, then streams and brooks. Just as streams and brooks irrigate fields and forests, pantries and other local food distribution sites bring food to individuals and families.



*The food system is like a river system.*

## Fiscal Sponsorship for food organizations

Fiscal Sponsorship relationships connect these four levels together into one food distribution system: Lead Agencies, Sub Agencies, and Food Distribution Sites.

## WSDA Food Assistance – Lead Agency relationship

With every Fiscal Sponsorship relationship, the story begins with WSDA FA and an Agreement between it and a Lead Agency.

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### Primary relationship in the food distribution system



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Lead Agencies hold primary responsibility for compliance and reporting.

### Lead Agency and its partners

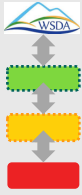
Lead Agencies need partners to distribute food, so they create agreements with partners, both nonprofits and community food distribution sites that may not be nonprofits (like community centers, schools, and some food pantries). WSDA FA provides templates for partnerships between Lead Agencies and nonprofit Sub Agencies.

**This resource is focused on the kinds of agreements between nonprofits and entities that are NOT nonprofits and therefore need to be sponsored to receive funds or food through the state's food distribution system.**

**There are four common fiscal sponsorship partnerships.** The first three involve pantries, meal programs, activities or projects that are NOT nonprofits. The last is appropriate for a nonprofit needing help with a grant.

## 1. Options for pantries, meal programs, activities, or projects (not nonprofits)

**OPTION 1** *Situation: A nonprofit Sub Agency wants to support a project/activity that brings food to an apartment building every Friday.*



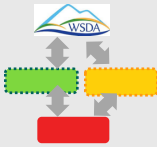
In Option 1, a Lead Agency partners with a Sub Agency, which serves as sponsor for activity/project that is not a nonprofit. The Sub Agency is the Fiscal Sponsor. The project/activity is a sponsored project/activity. The Sub Agency and project/activity will have a Fiscal Sponsorship Agreement.

**OPTION 2** *Situation: A Lead Agency is approached by a project that wants to provide food to an apartment building. There isn't a Sub Agency able to do this.*



In Option 2, a Lead Agency serves as sponsor for an activity or project that is not a nonprofit. The Lead Agency is the Fiscal Sponsor. The activity or project is then sponsored. The Lead Agency and the activity/project will have a Fiscal Sponsorship Agreement.

**OPTION 3** *Situation: A food pantry lost its 501(c)(3) status. They are the only food pantry in that community, and it is important that they continue to distribute food in that community. Another nonprofit in the community extends its 501(c)(3) status to this food pantry allowing it to continue serving the community.*



In Option 3, a different organization serves as a fiscal sponsor. In this case, there are three organizations in play: Lead Agency, nonprofit serving as Fiscal Sponsor, and a food pantry activity/project. The Lead Agency signs a Sub Agreement with the Fiscal Sponsor and a reporting agreement with the food pantry project. The Fiscal Sponsor and food pantry project sign a Fiscal Sponsorship Agreement.

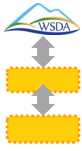
*Note: Option 1 can become an Option 3 situation if a Sub Agency loses its 501(c)(3) status. It must restore its status or find a Fiscal*

*Sponsor within 30 days. It reverts to Option 1 once its 501(c)(3) status is restored (if that happens).*

## 2. Option for nonprofit needing helping with a grant

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### GRANT



*Situation: A monetary grant is made available to a 501(c)(3) nonprofit that doesn't have the financial capacity to prepay for activities (a truck they need to purchase). It is a small organization with a volunteer bookkeeper and no money in savings. The grant would help it to purchase a delivery truck to respond to the surge in demand for food because of a pandemic. The agency needs a fiscal sponsor in place to ensure they can purchase the truck for this grant project.*

Fiscal Sponsorship provides a solution for nonprofits to expand their capacity for monetary grant purposes. In Option 4, a Lead Agency serves as sponsor for a Sub Agency *for grant purposes*. In practice, any tax-exempt organization can serve as a sponsor for another tax-exempt organization. The practice is not limited to a Lead Agency. In the case of grant fiscal sponsorship, the Agreement is limited to the grant.

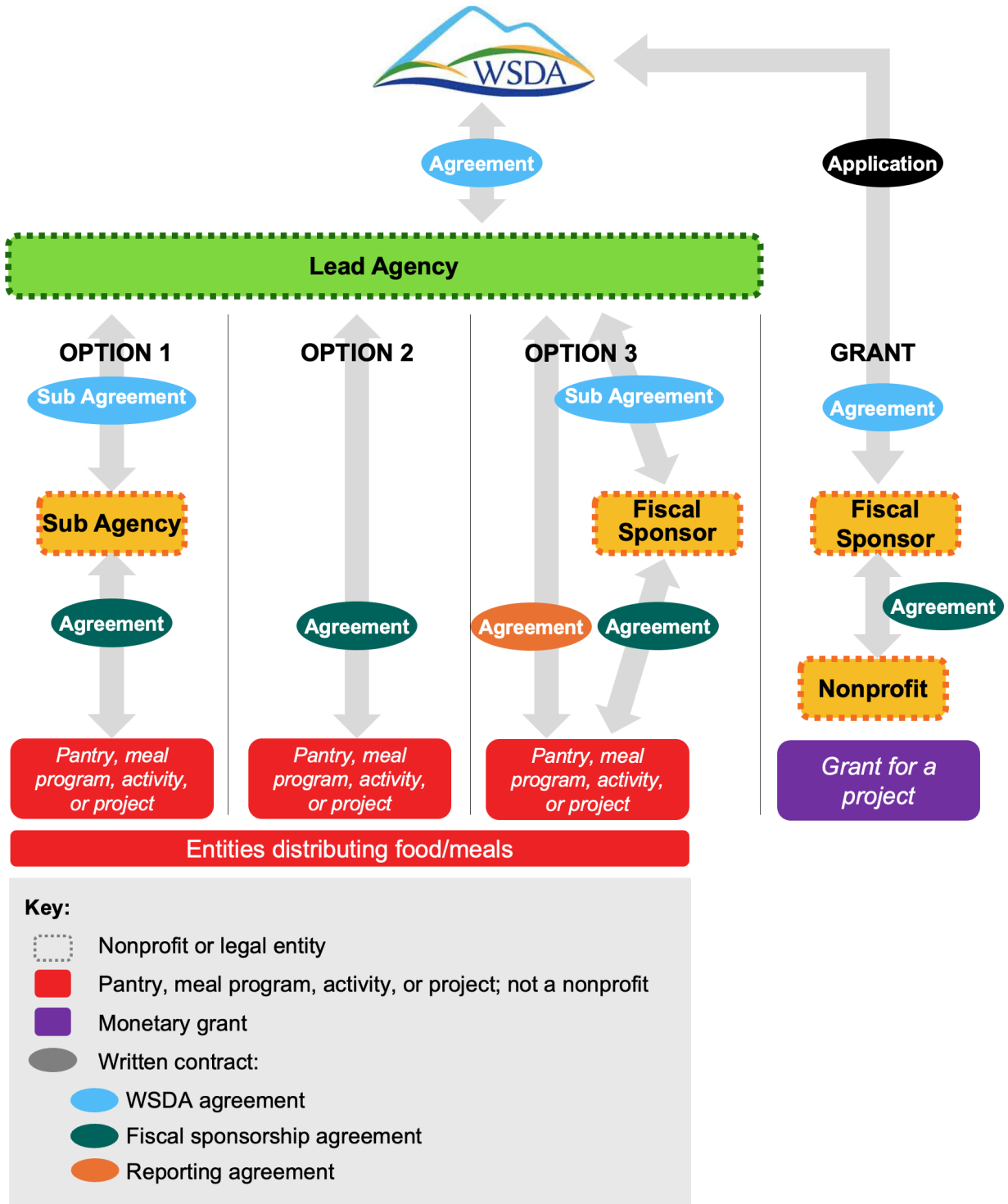
### Agreements

Three kinds of Agreement outline the compliance and reporting relationship between partners. We have color-coded them to make them easy to find in the graphic *Four Common Fiscal Sponsorship Partnerships* on the next page.

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- **WSDA FA Agreement** or Sub Agreement
  - **Fiscal Sponsorship Agreement** which outlines roles and responsibilities related the sponsor's tax-exempt status
  - **Reporting Agreement** which outlines reporting responsibilities
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## Four Common Fiscal Sponsorship Partnerships

Let's put it all together. This graphic shows the four levels of Fiscal Sponsorship and the four common Fiscal Sponsorship options used in the Food Distribution System. It shows what types of agreements are needed between partners in order to ensure clarity and compliance related to reporting and other requirements.



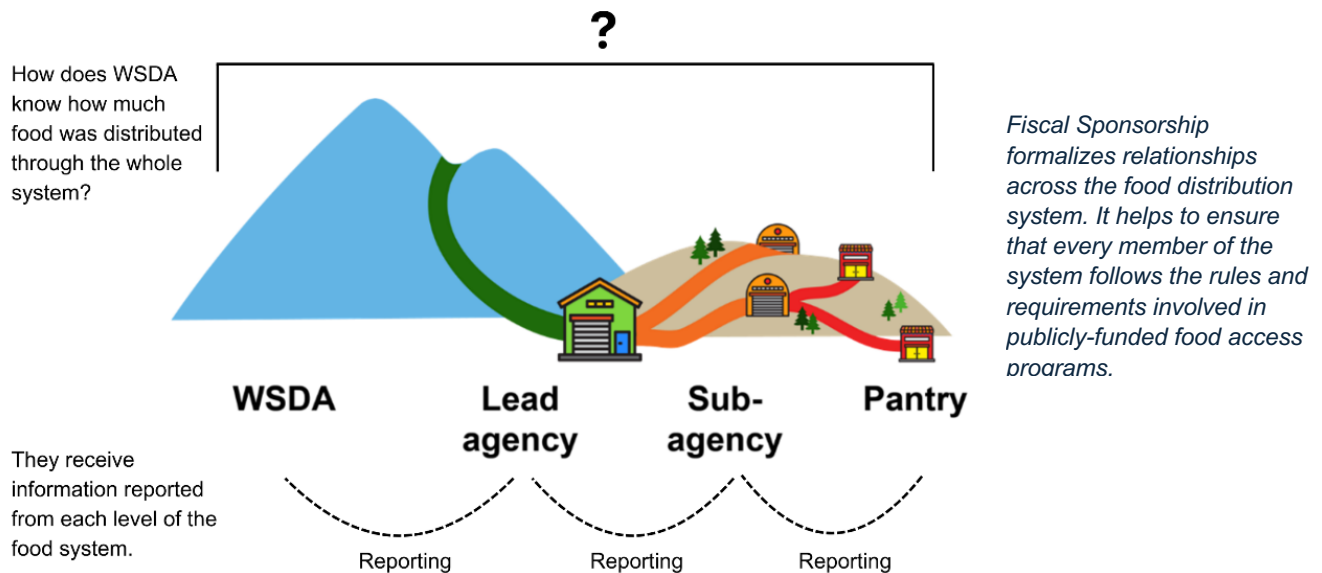
## Compliance roles

Fiscal Sponsorship is like an umbrella providing coverage on compliance issues and protecting the sponsored activity from risks and liability. In other words, **the sponsor is totally liable for the acts of the staff or volunteers related to the activity or grant**, depending on what kind of Fiscal Sponsorship relationship.

**It is also important to think about compliance within the larger Food Distribution System.** WSDA FA is responsible for the food and money distributed through the system. How does it know how much food was distributed? How does it know that pantries are following the rules and requirements that WSDA FA holds itself accountable for?

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### Compliance across the Food Distribution System



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**The Fiscal Sponsor holds the following compliance roles:**

#### Federal compliance

- 501(c)(3) **federal** tax-exempt status (and thus includes the activity in its annual IRS Form 990 reporting). This would include the Sponsor's EIN.

OR

- Be a federally-recognized Indian/Native American Tribe

OR

- Be a church as defined by the IRS. ([Alternate 501\(c\)\(3\) Church Verification Form](#))
- [SAM Unique Entity Identification \(UEI\) number](#)

#### State compliance

- State **corporation** status
- State **charity** status, if relevant

## Risk

- Insurance** coverage
- Financial responsibility** (and thus controls the funds and assets). A sponsored activity/program typically has no board of directors, no tax return, and no bank account, except petty cash. The sponsor handles all financial administration and provides all audit, fiscal, and other verification forms required by WSDA FA.

**Here's another way to think about who's responsible for the various elements involved in fiscal sponsorship:**

	Who's responsible?			
Compliance roles	OPTION 1	OPTION 2	OPTION 3	OPTION 4
Whose <b>federal</b> tax-exempt status applies?	Sub-Agency	Lead Agency	Fiscal Sponsor	Fiscal Sponsor (for the grant only)
Whose <b>state</b> corporation status applies?				
Who generally carries the <b>insurance</b> ?				
Who controls the <b>funds/assets</b> ?				

Note: A **Sponsored activity has one sponsor**. It is not appropriate to mix-and-match compliance roles, using one nonprofit's tax-exempt status and another organization's insurance coverage, *with a few possible exceptions (such as if a food distribution site is located in a building insured by another entity.)* On the other hand, one sponsor can have multiple sponsored activities.

Fiscal Sponsors hold tremendous responsibility. They must ensure that their program and any sponsored projects comply with WSDA FA rules and requirements.

**Sponsored projects, therefore, must do their part to help.** That means they must:

- Comply with the general terms and conditions of the WSDA FA Agreement. It is recommended that you read the agreements higher up the system to know what requirements Lead Agencies or Sub Agencies must follow.
- Maintain records, books, documents, and other evidence according to WSDA FA standards. WSDA FA and the project's Fiscal Sponsors should have access to these for inspection, audit, and reporting purposes.
- Submit reports and billing documentation as required by the Fiscal Sponsorship Agreement..
- Recognize WSDA's contribution to the project.

## Board roles and responsibilities

Because Fiscal Sponsorship extends the tax-exempt status of one organization to the other, the **board** of the fiscal sponsor must take steps to screen the activity or program and vote on becoming its Fiscal Sponsor. We provide more information about how to do that in the screening document (available with the Fiscal Sponsorship Tools from Washington Food Coalition).

**The flowchart on the following page shows how the two parties would go through the process of deciding whether or not to form a fiscal sponsorship partnership.**



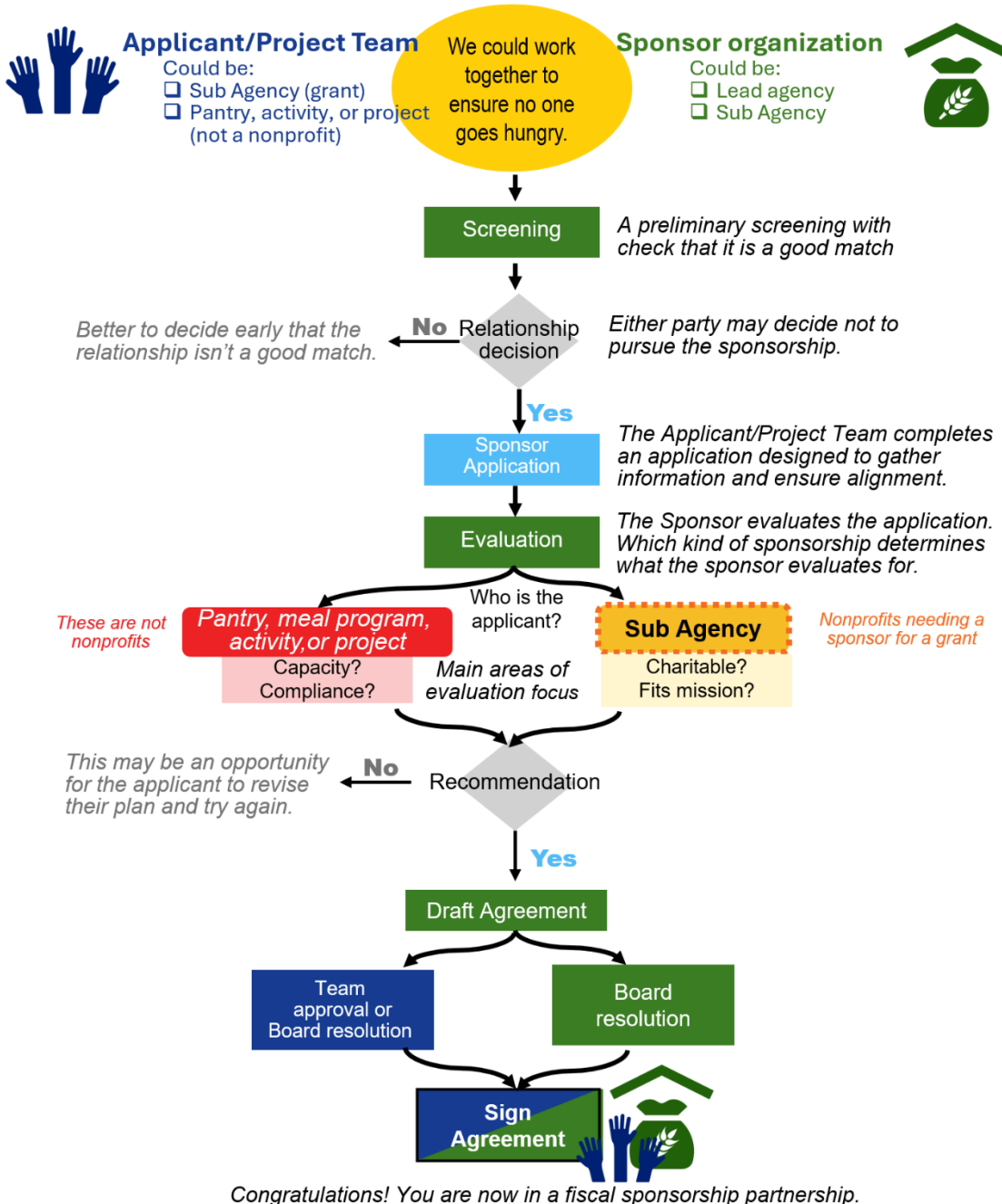
# Steps to implement Fiscal Sponsorship

This flow chart shows the steps involved in forming a Fiscal Sponsorship Agreement. Washington Food Coalition provides screening tools, an application, and templated agreements to support your success implementing fiscal sponsorship partnerships.



**FISCAL SPONSORSHIP**  
for FOOD ORGANIZATIONS

## Steps to Implement Fiscal Sponsorship





## FAQ

### **Do fiscal sponsors ever charge for those services? Are they allowed to?**

Yes— fiscal sponsors are allowed to charge sponsored projects for services and often do. (They are not required to.) Typically, organizations charge anywhere from 5 to 12%. Considerations in deciding whether/how much to charge are: (1) general approach as to how well the project helps the fiscal sponsor achieve its mission, (2) level of administrative work involved, and (3) ability of the sponsored project to pay for fiscal sponsorship services.

### **Who is liable for bad decisions in a fiscal sponsorship arrangement?**

In the Washington State food assistance system, the Lead Agency has the final responsibility for how the work gets done, therefore holds the liability with bad decisions. If there is a fiscal sponsor between the Lead Agency and the project, the fiscal sponsor is responsible for enforcing the Fiscal Sponsorship Agreement. It is crucial to have an agreement in place that includes a clear “break up” clause. This ensures that if any party fails to adhere to the agreed-upon terms, the fiscal sponsor has the option to terminate the partnership.

### **How often do you see an MOU/fiscal sponsorship relationship with a time-limit assigned?**

Fiscal sponsorship partnerships usually have defined end dates. Long-term, open-ended sponsorships are also common. The IRS does not specify a duration limit for fiscal sponsorships, but they are generally intended not to be indefinite. Eventually, the sponsored organization should either obtain its nonprofit status or integrate into the lead agency.

### **Where is the line between fiscal sponsorships and providing partnership support?**

There is a difference between fiscal sponsorship and a nonprofit providing partnership support. Take, for example, a food pantry that wants help distributing food twice a week. While this could result in a fiscal sponsorship arrangement, it could also stay a simple partnership where the two entities maintain separate accounts, operations, etc. In some cases, the project could become part of the sponsor’s on-going work, incorporated into the organization’s programming. It only becomes a fiscal sponsorship arrangement if the first organization extends its legal and tax-exempt status to the project, and the project maintains its autonomy in how the work gets done.

### **Can multiple agencies team together to fiscally sponsor a project?**

No. Multiple agencies can partner together, but one fiscal sponsor extends its tax-exempt status to the project.

To learn more and download the Fiscal Sponsorship Tools, visit  
[www.wafoodcoalition.org/fiscalsponsorship](http://www.wafoodcoalition.org/fiscalsponsorship).