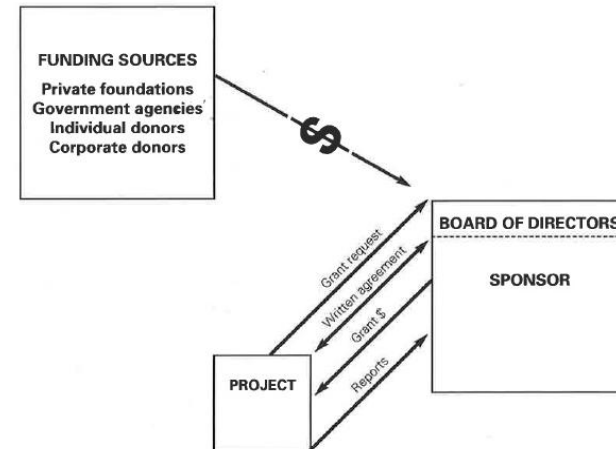
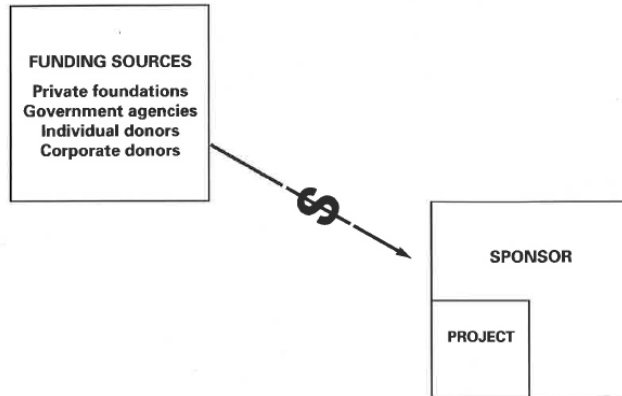


## FISCAL SPONSORSHIP: DUE DILIGENCE CHECKLIST

Fiscally sponsored grants require an extra layer of due diligence. In addition to conducting standard due diligence on **both the fiscal sponsor and the project entity**, there are a number of other important considerations.

KEY CONSIDERATIONS	INFO SOURCES
<p><b>Is the fiscal sponsor an appropriate grantee?</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Is it legally qualified to operate or fund the project?           <ul style="list-style-type: none"> <li>– Is the project aligned with the sponsor’s charitable purpose, per its by-laws?</li> <li>– Is the sponsor registered to operate in the state where the project will occur?</li> </ul> </li> <li><input type="checkbox"/> Does it have the organizational capacity to effectively oversee the project, and to fulfill Foundation reporting requirements?           <ul style="list-style-type: none"> <li>– Does it have qualified staff, and a reasonable number of sponsored projects under their supervision?</li> <li>– Is it financially sound, and does it adhere to appropriate standards of financial management, transparency, and integrity?</li> </ul> </li> <li><input type="checkbox"/> Does it have a well-developed fiscal sponsorship program, including approved fiscal sponsorship policies and a successful track record with similar projects?</li> <li><input type="checkbox"/> Does it adhere to the <a href="#">National Network of Fiscal Sponsors best practices</a>?</li> </ul>	<ul style="list-style-type: none"> <li>• Grant proposal</li> <li>• Fiscal sponsorship agreement</li> <li>• Conversation with sponsor and project</li> </ul> <p>Fiscal sponsor’s:</p> <ul style="list-style-type: none"> <li>• IRS Letter</li> <li>• Articles and by-laws</li> <li>• Board and staff list</li> <li>• Financial documents</li> <li>• Written fiscal sponsorship policies</li> </ul>
<p><b>What is the fiscal sponsor’s relationship to the project?</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Will the sponsor operate the project in-house (Model A) or re-grant funds to the project (Model C), and does it understand the implications of the model it is using? <i>Note: See page 2 for an overview of the models. To ensure you fully understand the implications of the model being used, be sure to review the appropriate chapter in “Fiscal Sponsorship: 6 Ways to Do It Right” by Gregory L. Colvin.</i></li> <li><input type="checkbox"/> Will the sponsor provide any services to the project, in addition to tax exemption (e.g., accounting, payroll and benefits administration, insurance, office space, etc.)? <i>Note: Beware that a Model C sponsorship that does not provide any services beyond tax exemption may be at higher risk of being deemed a “conduit” by the IRS.</i></li> </ul>	<ul style="list-style-type: none"> <li>• Grant proposal</li> <li>• Fiscal sponsorship agreement</li> <li>• Conversation with sponsor and project</li> </ul>
<p><b>Is the fiscal sponsorship agreement appropriate?</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> For Model C sponsorships, does the sponsor have complete control and discretion over funds received for the project (i.e., “variance powers”), ensuring it is not merely acting as a “conduit” for funding?</li> <li><input type="checkbox"/> Does the project entity have the right to enforce, amend, or terminate the agreement?</li> <li><input type="checkbox"/> Does the agreement specify terms and a process for dissolving the relationship?</li> <li><input type="checkbox"/> Are the sponsorship fees commensurate with the services to be provided (10% is average) and adherent to the Foundation’s Sponsored Projects Policy?</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal sponsorship agreement</li> </ul>

## FISCAL SPONSORSHIP: THE TWO MOST COMMON MODELS



### Model A: "Comprehensive" or "Direct Project"

This is the most common form of fiscal sponsorship. It provides the sponsor with the most control over the project and the least IRS exposure.

- The project is housed entirely within the fiscal sponsor and does not exist as an independent legal entity
- The sponsored party cedes control of the project to the sponsor, but retains the right to enforce, amend, or terminate the agreement
- Project staff become employees of the sponsor
- Project assets (including intangible assets, such as copyrights), liabilities, and risks belong to the sponsor
- The sponsor typically charges an administrative fee to the restricted fund dedicated to the project
- Separation can be particularly tricky; the fiscal sponsorship agreement should include very specific terms for dissolving the relationship

### Model C: "Pre-approved Grant Relationship"

This is a widespread but misunderstood model. Poorly administered, it can result in the sponsor acting as an illegal "conduit" for funding.

- The project is housed within an independent legal entity, which becomes a grantee of the fiscal sponsor
- Prior to any fundraising, the project submits a grant proposal to the sponsor; the sponsor's board pre-approves the project as a grantee
- Funders can award grants to the sponsor that are restricted for the project purpose, but *not* for the project entity
- The sponsor exercises control and discretion over all funds received
- Project staff act as agents of the project when managing the work, but as agents of the sponsor when fundraising
- Project assets, liabilities, and risks belong to the project entity; the sponsor is only liable for awarding and monitoring the grant
- The sponsor typically retains an administrative fee from funds raised