

Sweet Grass Community Foundation

Frequently Asked Questions

Fiscal Sponsorship

What is a fiscal sponsor? What is fiscal sponsorship?

Fiscal sponsors are nonprofits that enable the movement of resources from funders and donors to projects, activities, ideas, and organizations that share the fiscal sponsor's mission.

Fiscal sponsorship means a nonprofit organization- "a fiscal sponsor"- assumes legal and financial responsibility for the activities of groups or individuals engaged in work that furthers the fiscal sponsor's mission and their own respective purposes.

Fiscal sponsorship is an alternative available to individuals or groups performing charitable services and wishing to give their donors the ability to take a charitable contribution deduction, but not wanting to spend a great amount of time and resources to comply with the extensive filing requirements, tax compliance, and other legal obligations associated with incorporation and tax exemption.

Fiscal sponsorship is a good option for individuals or groups starting their charitable programs and wishing to test the feasibility of their ideas before forming a new corporation, or wishing to focus their attention on the delivery of program services rather than on corporate and tax compliance.

What are the benefits to becoming a nonprofit through fiscal sponsorship instead of forming a 501(c)(3) nonprofit corporation?

Starting a charitable program through a fiscal sponsor is easier for two reasons: time and money. The process of forming a nonprofit corporation and applying for tax exemption from the IRS is expensive (typically requiring a lawyer), and generally requires a minimum of six months. Under a fiscal sponsorship relationship, your charitable program can usually get off the ground in a few weeks with low or no upfront costs.

Why would I want to avoid starting my own nonprofit corporation?

Nonprofit corporations recognized as tax-exempt under Section 501(c)(3) are subject to a wide array of filing and regulatory requirements under local, state and federal law, and must continue to operate tax-exempt programs to maintain exemption from tax. Countless examples exist of nonprofits that have neither the time nor the resources to comply with these various requirements. There are innumerable other examples of nonprofits that waited until after obtaining recognition of tax-exempt status to test their programs, found that the programs were not feasible, and never began to operate the charitable programs.

In either case, the consequences of noncompliance can be dire. Failure to comply with applicable laws may result in taxes and fees that can grow to thousands of dollars if left unpaid. Organizations that fail to operate charitable programs can lose their tax exemptions and become subject to income taxes. Directors and officers can be held personally liable if they do not take

due care to cause their organizations to comply with the law. Individuals who form a new nonprofit corporation often find themselves spending a lot of time and energy on corporate and tax compliance instead of focusing on the important work of developing and starting up their charitable programs.

How does fiscal sponsorship work?

Fiscal sponsorship typically involves an arrangement under which an existing 501(c)(3) tax-exempt public charity assists an individual or organization with a charitable project by permitting the project to solicit tax-deductible contributions or grants through the fiscal sponsor that the project is not eligible to receive on its own. Through such an arrangement, funds intended for the project are deposited with the sponsor, which then disburses them to the project.

What are some advantages of fiscal sponsorship?

Ability to receive tax-deductible donations. A donor that contributes to a project through a fiscal sponsor with 501(c)(3) status may normally deduct the contribution as a charitable contribution deduction. Those funds will then be directed to the project to assist the project with running its programs.

Ability to get off the ground faster. Typically, a fiscal sponsor permits a new project to test its new ideas more quickly than it otherwise could by providing administrative and capacity-building support and permitting the project to begin charitable fundraising without the delays associated with incorporating and filing for tax-exemption.

Wider base of support. If the organization that acts as a fiscal sponsor has a solid track record with foundations and other funders, this may benefit a “project” of that organization. Projects that don’t already have pre-existing relationships with funders may be in a better position to secure some grants or charitable donations if they have a fiscal sponsorship relationship with a reputable charity.

Technical assistance and administrative support. Many sponsors also provide projects with additional support such as insurance, payroll and accounting services, office space, publicity, capacity building or fundraising assistance. This support not only makes it possible for projects to focus more time and energy on their missions and less on administrative matters, but, due to economies of scale, may also be provided at lower cost to a project than the project might have to pay if it incorporated on its own.

Potentially Lower Insurance Costs. Often, sponsors will be able to obtain lower insurance rates than would be available to a small start-up nonprofit corporation, and these savings can be passed along to the project.

Sweet Grass Community Foundation Fiscal Sponsorship Program

What are the benefits of becoming a Sweet Grass Community Foundation (SGCF) fiscally sponsored project?

Sweet Grass Community Foundation offers services that help individuals and groups performing charitable services start, grow, and achieve important community gains without delay and red tape. By extending legal, corporate, and fiscal sponsorship to new projects, Sweet Grass Community Foundation allows them to operate under the auspices of a fully qualified tax-exempt public charity.

SGCF handles back office work so the project workers' time is freed up to focus on their mission. SGCF processes all donations for the individual projects, files appropriate paperwork with government agencies, sees to paying all related bills of the project, issues tax-receipts to donors and maintains a professional office for the projects.

Here are a few benefits:

- All accounting is done in house for minimal fee of 6 % of project revenue.
- Recognition as a nonprofit entity under SGCF's fiscal sponsor umbrella.
- Updated financial reports (profit & loss statements) available quarterly or as requested.
- All federal and state tax filings (990s and 1099s) handled.
- Thank you letters/tax receipts to donors for donations.
- Ability to accept donations by check, cash, or credit card.
- Ability to apply for grants.
- Existing systems in place to teach project leaders the responsibilities and limitations of non-profits.
- Exposure for your project via SGCF's website, newsletters, annual report, and other publicity materials.
- Networking of projects to promote collaboration and resource exchange.
- Available one-on-one consulting and guidance in a nurturing, supportive environment.

Though fiscal sponsorship is sometimes described as a purely administrative relationship, at SGCF, it is a tool for providing support, building capacity, and creating community.

What are SGCF fiscal sponsorship fees?

The expenses involved in becoming a project of SGCF are significantly less than that charged by a typical fiscal sponsor. Sharing costs across all projects enables SGCF to equally assess all of its projects a very low administrative charge which is deducted from revenues as they are received. The administrative charge is currently set at 6% of project revenues and 10% on revenues from public sources (grants from and contracts with government agencies) because they require significantly more staff time to administer. SGCF requires that each project pay a minimum of \$200 annually.

These funds are used to maintain the SGCF office and general operations, along with bookkeeping, filings, and year-end tax preparation. However, only a small portion of SGCF's operational revenue is generated from the fiscal sponsorship fees.

How do I know if my project is eligible for SGCF fiscal sponsorship?

The minimum requirements for a project to be considered under our 501(c)(3) status are: (for more detailed information please visit www.IRS.gov)

- Project activities must be charitable in purpose
- Project must be organized and operated exclusively for purposes set forth
- No earnings may inure to any private shareholder or individual
- There can be no attempt to influence legislation as a substantial part of its activities
- Projects cannot participate in any campaign activity for or against political candidates
- The organization must not be organized or operated for the benefit of private interests

We provide fiscal sponsorship to projects that demonstrate genuine charitable intent, able and committed leadership, potential for significant community impact, and strong prospects for growth and financial sustainability.

What is the process for applying to SGCF's fiscal sponsorship program?

With the help of SGCF staff, project applicants are asked to complete a proposal for project sponsorship and a projected budget. When the project leader, in consultation with SGCF staff, decides that the project application is complete and ready for consideration, it is rigorously reviewed by Sweet Grass Community Foundation staff, board members, and community advisors. We invite the leaders of projects that are strong candidates for fiscal sponsorship to meet with the board, briefly present their project, and answer questions. Final determination of sponsorship is made by the full board of Sweet Grass Community Foundation.

The Board grants sponsorship after careful consideration to a project's goals, methods, and the project leadership's understanding of community needs. We review the project leadership's ability to attract contributions to fund it. We look for a fit between the project leadership's experience and capability, the project concept, and Sweet Grass Community Foundation's mission.

What makes for a strong proposal for fiscal sponsorship?

A strong proposal will answer all the questions and present a clear, viable vision for a project with demonstrable impact, real prospects for funding and capable leadership that can help move the project's goals forward.

In reviewing project applications, we consider the necessity of the project within the broader Community Foundation of the community, the capacity of the project's leadership, and whether it's a good fit with our existing projects and programs.

The following questions are illustrative of the kinds of things we look at:

- Is there a need for this project? Is this need clearly stated?
- Does the project have the capacity to successfully implement this project? Is there access to resources (money, time, expertise)? Have the project leaders illustrated an appropriate knowledge of the field?
- Is the project a good fit for SGCF? Does the project support our organizational mission? Will it fit within the organizational culture?

- Are there opportunities for collaboration or for conflict with existing programs in the community?

I don't have any funds currently coming into the project, so how can I develop a budget?

Budgeting is a critical aspect of program planning. Even if you have not yet raised funds, you will need to determine the costs of putting your vision into action. You will also need a variety of revenue sources to pay for those expenses. We provide a budget template with the application in order to help you map out revenues and expenses for your projects next year. Sweet Grass Community Foundation staff is available to provide explanation, guidance, and feedback to potential projects during the development of the budget.

In reviewing your budget, we are looking for a realistic projection of what your project will cost and a strong plan for raising those funds. Your expenses should reflect the activities you describe in your proposal. While you may not yet have commitments for grants, individual donations, or other fundraising activities, we are looking for evidence that you have researched these possibilities. For example, it is not enough to list "grants" alone as a line item; you must identify foundations that have historically given to your type of charitable program, and at what levels.

Do we need to form a Board of Directors?

It is not necessary, as the SGCF Board of Directors becomes the de facto Board for all SGCF projects. This is due to the fact that every project is legally a part of SGCF.

All projects are highly encouraged to form an advisory committee. While the advisory committee does not have legal responsibility for your project, it typically fulfills many of the roles usually held by boards of directors, including resource development, serving as ambassadors for the project, and for providing program and financial oversight. This helps in project efficiency, community visibility, and in the "spinning off" process if your project decides to become its own nonprofit.

Does SGCF provide projects with financial support? Does SGCF raise funds for the project?

At this time, SGCF is not a grant-making organization. All projects are expected to raise funds to cover their activities, as well as project related overhead. That said, the services provided by SGCF have financial value above and beyond what is charged for them; and our projects receive those services even in advance of securing funding. In that way, we make an investment in the projects we support even though it is not through the direct transfer of funds.

What is expected of the project once it is under SGCF's fiscal sponsorship?

Projects work under the general supervision of the ED, but are virtually autonomous on a day-to-day basis, because we have great confidence in the capabilities of individuals and groups to develop their work. SGCF gives creative, results-oriented people the freedom to develop program ideas, supported by services to help them pursue those ideas.

When a project joins SGCF, that project is responsible for running their day-to-day operations. SGCF will provide the appropriate fiscal assistance and all privileges accorded a tax-exempt organization. The outline below should give you an overview of key areas of responsibility.

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Responsibilities of the project include:

- Project's activities must be charitable in purpose and contribute to their mission.
- Project's activities must have a need for and the potential to benefit from the services provided by SGCF.
- Projects must be willing to work in collaboration with SGCF.
- Projects are required to submit all receipts and invoices to receive disbursements.
- Projects are required to raise their own funds.
- Projects must submit quarterly reports and an annual budget.
- Open communication between the Project and the SGCF office. This includes any changes in the contact information and status of the project.
- Projects must identify themselves as "a project of Sweet Grass Community Foundation" on all public materials.

How does the flow of money occur once a donation has been given?

Once funds have been procured, whether through outreach, a fundraiser, or a grant, they need to be brought to the SGCF office. Once the funds have arrived at the SGCF office, they will be photocopied, deposited and entered into our accounting database. You can then access the funds for project purposes.

Why does SGCF have to accept and manage the funds on behalf of the projects?

Since the IRS is increasingly wary of nonprofit activities, we need to ensure that all SGCF financial activity is completely transparent. In the event that SGCF is ever audited or investigated by the IRS, it will be absolutely imperative for SGCF to show fiscal responsibility and control for any portion of the work that occurs while a project is a under SGCF.

Why does SGCF need to oversee the work of the project?

SGCF's board of directors accepts significant financial and legal liability when it embraces a project under its 501(c)(3) designation; it would be irresponsible for the board not to set expectations and monitor the project's activities, from programmatic efforts to community interactions.

Also, since sponsored projects become SGCF's legal responsibility, their actions are considered actions of SGCF; and what one project does affects the all SGCF programs and projects. The oversight provided by SGCF of all its projects helps to ensure that the actions of another project won't jeopardize the work of your project.

If we choose fiscal sponsorship with Sweet Grass Community Foundation now, would we have to incorporate as a nonprofit later on? What if we decide we want to incorporate?

We encourage projects to plan to stay at least a year under our sponsorship, but do not place a limit on the length of time a project can remain under our auspices. Some projects never terminate the fiscal sponsorship relationship. If, after a few years of operating with Sweet Grass as your fiscal sponsor, you are ready to form a separate charitable entity, you may obtain tax-

exemption for that entity, and terminate the fiscal sponsorship relationship. We work with project leaders through a separation process once they and their advisory committee decide their project has reached a level of sustainability and is ready to incorporate as an independent nonprofit.

How and why may the fiscal sponsorship relationship end?

Projects may terminate their work with SGCF for various reasons. A project may do any of the following:

- Complete the project work. Our projects can end when they have completed their work and spent down all their funds. If funds remain after the project is completed, a like-minded 501(c)(3) may receive the funds; if appropriate, the balance may be returned to the donor/grantor, or granted to SGCF.
- Transfer to another 501(c)(3) organization that will serve as its fiscal sponsor. Any remaining project funds and assets on account with SGCF are transferred to the new fiscal sponsor.
- Evolve in to its own 501(c)(3). This new nonprofit organization assumes responsibility for its own operation, and any remaining project funds and assets on account with SGCF are transferred to the new entity. SGCF staff works with the project to make this a smooth transaction.
- Be terminated by SGCF. SGCF's fiscal sponsorship of a project may be terminated in the following circumstances:
 1. The project's account has a zero cash balance.
 2. No significant activity has occurred in connection with the project for one year or longer.
 3. The project is in clear violation of guidelines and procedures that govern the terms of project sponsorship at SGCF. In some cases, a violation of these procedures may threaten the 501(c)(3) status of SGCF.

How do I get more information?

Please contact the Sweet Grass Community Foundation office at (406)932-3090, or via e-mail at info@SweetGrassCF.org.

Thank you for your interest in Sweet Grass Community Foundation and our fiscal sponsorship program. We look forward to working with you and achieving the change that you have set out to make.

