



Fiscal Sponsorships vs Fiscal Agency

The terms “fiscal sponsor” and “fiscal agent” are often used interchangeably, however there are important distinctions between fiscal sponsors and fiscal agents that impact how such transactions are recognized in the general ledger and how they are disclosed in financial statements. The primary distinction depends on which entity holds variance power over the applicable funds. Variance power is defined as having relative discretionary power over how assets are used.



Fiscal Sponsorship

A fiscal sponsorship is a relationship between a tax-exempt non-profit organization (the sponsor organization) and charitable project that does not have a tax -exempt status. In a fiscal sponsorship arrangement the sponsor organization has variance power over the applicable funds.

Most often fiscal sponsorships are created to assist small charitable projects with fulfilling their mission without needing to obtain a tax exempt status. This is common for newly formed charitable projects that have not yet filed for a tax-exempt status or charitable projects that are too small to justify the effort needed to acquire a separate tax -exempt status.

Key Points:

1. The sponsor organization receives funds (i.e. grants and contributions) on behalf of the charitable project and endeavors to see that the funds are spent on the intended charitable purpose.

2. The sponsor organization is given the ultimate authority (variance power) to dictate how and when funds are expended.
3. Funds received by the sponsoring organization should still be consistent with the sponsoring organization’s tax exempt purpose.
4. As the tax-exempt sponsoring organization has ultimate authority over use of the funds received, they should recognize temporarily restricted revenue when funds are received and then recognize an expense when funds are expended.
5. Sponsorships are cheaper, faster, easier and more efficient than setting up a separate 501(c)(3).
6. Provides confidence to potential funders who are sometimes reluctant to support new projects.
7. Donations to the project are tax deductible to the donor.
8. The sponsor organization provides valuable guidance to the project and usually retains a small fee for their work.

Fiscal Agency

A fiscal agency arrangement is a relationship between a tax-exempt non-profit organization (the fiscal agent) and a smaller non-profit organization that may or may not have its own tax exempt status. In a fiscal agency arrangement, the fiscal agent does not have variance power over the applicable funds.

A fiscal agency relationship is often found with small charitable organizations that have their own tax-exempt status, but prefer to contract with a larger organization for the purpose of providing back office or other administrative support. The smaller organization is sometimes known as the “project.”

Key Points:

1. The fiscal agent receives funds (i.e. grants and contributions) on behalf of the project and has a legal responsibility to see that the funds are spent on the intended charitable purpose. They have no discretion in determining how the assets will be used.
2. The fiscal agent accepting the funds does not retain any control (variance power) over the funds received. This is a true pass-through relationship.
3. As the fiscal agent receiving the funds has no authority over the direction of funds received, the fiscal agent organization should recognize an asset and corresponding liability when funds are received. The asset and offsetting liability will then be reduced as funds are expended.
4. The income and expenses of the project are kept separate from the charity’s operations, except for the earned fee for its services.
5. Unless the project has its own public charity tax exempt status, donations to the project are NOT tax deductible to the donor.

