TRANSCRIPT OF WEBINAR:

FISCAL SPONSORSHIPS - LEGAL AND PRACTICAL ISSUES

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BEGIN TRANSCRIPT:

ROBERT WALDMAN: Good afternoon. Welcome to Venable's Monthly Nonprofit Webinar. I am Bob Waldman, a partner at Venable, and I'd like to welcome my guest co-presenter today, Chuck Adkins, the Chief Financial Officer at the Fund for Educational Excellence. We're speaking today on the topic of fiscal sponsorships, legal and practical issues. So, let me start with the basic question of what is a fiscal sponsorship? So, a fiscal sponsorship is a situation that involves a 501(c)(3) charitable organization which is known as the fiscal sponsor. [0:00:55]

And the fiscal sponsor is an organization that's willing to accept contributions to fund a project that's either housed at the fiscal sponsor itself, or that's being sponsored by a non-charitable organization. And I'll give you a simple example, frankly it's the first example I ever encountered in dealing with fiscal sponsorships. It involved a situation with believe it or not a hotdog vendor who had set up a stand outside of a school. And every morning when kids would come to school, he would literally give hot dogs to kids who didn't have lunch, who hadn't brought lunch to school. He wasn't a charity – he wasn't a 501(c)(3) organization. But he was doing a really good thing. [0:01:45]

And people wanted to fund the organization, but they wanted to take a deduction. So what they did was, it was a noncharitable organization. They ran the program through another 501(c)(3) organization, the fiscal sponsor, so that people could take a deduction for money going into the fiscal sponsor that would ultimately go to fund the project that did not have 501(c)(3) status. So in effect, what's happening in a fiscal sponsorship is that the fiscal sponsor is lending in effect its 501(c)(3) status to a project that does not have its own 501(c)(3) status, but is doing something that you or I would think of as charitable. [0:02:33]

Now, the key in a fiscal sponsorship is that the fiscal sponsor, the 501(c)(3) organization, has to maintain control of the funds that are raised for the charitable project and cannot be a mere passthrough or a mere conduit, passing money from the fiscal sponsor to the noncharitable activity or project. So to eliminate some level of confusion, and I'll talk about all of this in a little more detail in a moment. But people use terms interchangeably and frankly incorrectly, and refer to these as fiscal agencies. A fiscal sponsorship is not a fiscal agency. A fiscal agency, if you think about what an agent is, an agent is someone who works for the other entity. [0:03:24]

So in a fiscal agency, you would have the project that's not a charity using the charity as its agent. That's not a fiscal sponsorship. In the fiscal sponsorship, it's important that the 501(c)(3), the fiscal sponsor, maintain control of the project and the funds that are raised. Now, the fiscal sponsor will typically qualify as what is deemed to be a public charity by the IRS, and will typically house multiple funds for multiple projects. And Chuck will talk about that a little bit later with respect to his organization. [0:04:05]

Now, the project can conduct fundraising activities through the fiscal sponsor, because the fiscal sponsor is the one that has the 501(c)(3) status. So, why are we seeing an increased use or prevalence of fiscal sponsorships? The use of these 501(c)(3) organizations that house projects that don't have their own exemption? And in my experience, there are several reasons for why we're seeing more of this. First of all, is the time and the expense involved in securing IRS exemption for a new charity. What we're seeing timewise, is the IRS is moving much more slowly than it did in previous times, that it easily takes six months to a year for the IRS to approve an exemption application. And quite often, the project needs to get started before then. It can't wait for the IRS exemption. [0:05:05]

And second, quite often you'll see a situation where people are ready to start donating right now, and can't wait for the 501(c)(3) status to come through. They need a place where they can contribute now to a 501(c)(3) entity to fund a particular project, and not wait for the project to get its own exemption. Next, there's also, as you may know, a fair amount of expense involved in maintaining and running a charitable organization. And quite often, where you've got one project that you're trying to fund, whether it's renovation of a park, whether it's an art project, you don't want to incur all that expense to take it on. [0:05:56]

It's a one-time project. It's too much to set up a separate charity, the expense that goes into it, the expense of running it. So you say what's an easier way to do this? Next, often the organization, the project will feel that it needs what we would deem to be back-office support. They've got an idea for a good project. They want to put a mural up in a neighborhood. We want to again renovate a park. And they're saying, we need someone who can help us with bookkeeping, the accounting. We don't have the capacity to do that. Can someone else do that for us? [0:06:35]

And probably the most prevalent reason we see for the increase in fiscal sponsorships is quite often the charitable project is a short-term one-time project. Again, using my example, somebody wants to renovate a park now, but it's going to be over in six months. They don't need a long-term charity that's going to be around for years, because this project's going to come and it's going to go. You see this also with disaster relief. There's a hurricane. There's a flood. People want to jump in and help right away. But once it's done, it's done. They don't need a permanent sort of charity. [0:07:18]

So let's talk about who the players are in a fiscal sponsorship arrangement. Well, first there will be the fiscal sponsor. That's the 501(c)(3) organization. In our example today, Chuck's organization, The Fund for Educational Excellence, they serve as a 501(c)(3) fiscal sponsor. Then there's the project. What is the project that you're undertaking? Is it the park renovation? Is it the let’s build a playground in a neighborhood? Is it, let’s paint the mural in a neighborhood? That’s the project. [0:07:57]

Now, quite often you’ll hear people refer to the project as the fiscal agency, because they are the project that is housed at the fiscal sponsor. Then there will be a committee of people who are administering the project. These are the people who had the idea, who want to promote the project, who are going to do a lot of the legwork on it. Call them the committee, just to keep that clear. But it’s the group of individuals who are behind the project. And then there are the donors to the project. And typically, the donors will fall into two categories. [0:08:37]

There will be foundations that want to give to the, to fund the project. Now, those organizations, the foundations will say, they’ll look at the fiscal sponsor and say well gosh, are we permitted to make grants to that fiscal sponsor? Is that okay for us to do? We’ll talk about that a little bit in a moment. And then you’ll have individual givers. The individual donors who want to fund the project. [0:09:07]

So when is a fiscal sponsorship a useful vehicle in the world of charity? Well, as we’ve talked about, first is in a situation where individuals don’t want to create their own charity to carry out a project. They don’t want to do the work, they don’t want to spend the money, they don’t want to take the time to form their own charity. Again, as we talked about, if the project’s a short-term project, it’s going to come and it’s going to go. We don’t need a charity that’s going to be around for years or frankly, we won’t even know if we got IRS exemption. By the time we get that, the project will be done. So if you have a short term project, fiscal sponsorship can be a useful place to house it. [0:09:52]

If you have, and this happens quite often, a newly formed charity that’s going to undertake a program. But they haven’t heard from the IRS yet. They’ve formed the charity. They may not hear from the IRS for six months or a year whether they’re going to qualify, whether they have an IRS determination letter. Meanwhile, donors want to start giving right away to fund the project. They need a place, a 501(c)(3) organization, that can take that money and where the donor gets a charitable deduction. [0:10:22]

Next, again, you want to fund a project that doesn’t have 501(c)(3) status and may never have 501(c)(3) status but donors want to take a contribution deduction for it. So again, my hot dog stand example. It’s a good project. Everyone believes they’re doing a good thing. They’re helping kids who don’t have food for lunch. But they’re not applying for 501(c)(3) status. They have no intention of doing it. But they’re doing a good thing. So, you want a place that can fund that organization. [0:10:54]

As I mentioned, disaster relief is a classic place where a fiscal sponsor can be valuable. Because when the disaster hits, the flood, the earthquake, Katrina. You need to act quickly. You can’t wait for the charity to be set up, be formed, to get your IRS determination. We need to move quickly. And a fiscal sponsor can be very helpful in that. And international grant making is an area where we’ve seen an increased use of fiscal sponsors, because as those of you who are involved with private foundations know, making international grants involves a lot of work.

You either have to do what’s called expenditure responsibility, or do an equivalency determination of the foreign charity to determine if it’s the equivalent of a U.S. charity. And that’s a lot of work, and your foundation may not be set up to do that. In many cases, the fiscal sponsor will do that work for you. And finally, fiscal sponsorships can be very helpful in hardship funds. Employee hardship funds. And I’ll talk about that a little bit more in a moment. [0:12:08]

So let’s talk in a little bit more detail about the basic types of fiscal sponsorships. The first type, and probably in some ways the most common is where there’s a charitable project that somebody wants to undertake. Building a playground in a neighborhood. And that project is housed inside the fiscal sponsor. The fiscal sponsor decides, we’re going to make this our project. We think this is a good thing. We will house it at the fiscal sponsor. The project, the building of a playground, actually belongs to the fiscal sponsor. It’s their project. [0:12:49]

People then make contributions to the fiscal sponsor to fund the project, which are deductible. The fiscal sponsor often will conduct fundraising for the project or the committee that had the idea of the playground. They’ll conduct the fundraising. They’ll go out and raise the money for it. Now quite often, and Chuck will talk about this, the fiscal sponsor may employ staff, or independent contractors to run the project. And the good news here is that because the fiscal sponsor itself is typically at 501(c)(3) public charity, foundations will make grants to and can make grants to the fiscal sponsor. [0:13:36]

But again, you know, a question that we’ve seen come up from our foundation clients is well, what should we be thinking about when we look at these fiscal sponsors. Do we have to do any due diligence? Do we have to check out the fiscal sponsor? And the answer is yes. They should, because unfortunately, there have been some bad examples where some fiscal sponsors have gotten in trouble. Have not done a good job. So yeah, the foundation is free to make a grant to the fiscal sponsor. It’s a public charity like any other charity. But the foundation needs to do some due diligence. Make sure that the fiscal sponsor is a stable, is a well-run organization. That it doesn’t have any issues with it. [0:14:19]

So, let’s talk about a different model of fiscal sponsorship. In this model, instead of the project itself being housed at the fiscal sponsor, the project itself is actually being run by an unrelated non-charity. It’s outside the fiscal sponsor. It’s a project that’s just being run by some individuals or by a group. It doesn’t have 501(c)(3) status typically. But it doesn’t belong to the fiscal sponsor. It’s just a group of people have come together, and they’ve got an idea for something that would be a good project. They say gosh, in this neighborhood, there’s this building. We’d like to renovate the building and maybe make it a community center. [0:15:09]

We don’t have 501(c)(3) status but here’s this building we think would be a great community center. And in this model, what would happen is, the fiscal sponsor would serve as an entity that collects money to do the charitable project and then make grants to the quote unquote non-charity. So here what would happen is, the fiscal sponsor will look at the project, decide “do we like this project,” and if so, the fiscal sponsor will collect contributions to fund the project. [0:15:42]

The project will come to the fiscal sponsor just like any other grantee and apply for a grant to do its renovation. And the fiscal sponsor will consider it. And if they think it's a good idea, and they think the grant application is a good thing, they'll make a grant to the non-charity. In this case, whereas in the project that's housed at the fiscal sponsor, in that first model the good news is that the the non-charity doesn't have to do its own tax returns or apply for tax exempt status because that's all being done at the fiscal sponsor. In this model, because the project is not owned by the fiscal sponsor, the project group becomes responsible for any tax returns and perhaps for employees and things like that. [0:16:33]

Another model and use of fiscal sponsorships, and Chuck I'm sure will talk about this, is quite often, you'll have a non-charity or project, or frankly it could be a charity that wants to contract with the fiscal sponsor simply to provide administrative back-office support. And that could be bookkeeping, record keeping, accounting, investment services, management services, payroll, fundraising. But really, we just need technical support from the fiscal sponsor. And so, you'll have the project or frankly it could be a charity entering into an agreement with the fiscal sponsor for it to provide this kind of technical support. [0:17:19]

Now, what would you typically find in a fiscal sponsorship agreement? Well, a lot of things will be covered in it. And these are, they need, these types of agreements need to be reviewed carefully, is you'll find a description of fundraising responsibilities. Who's going to raise the money? How's that going to work? What are the grant making terms going to be? How are we going to decide if the fiscal sponsor will make a grant to the project? What will the project have to do? Will the project have to apply for the grant? How will that work? What forms will have to be filled out? What reporting will need to be made? To the extent there's going to be employees or staff or independent contracts, or volunteers, how is that going to be handled? [0:18:09]

Importantly, what you'll see is termination provisions. Because what happens quite often is, a project will say you know what, we'll start with a fiscal sponsor. We're not sure we're going to stay there forever, but we'll start there. And we want to see, will this project work out. But if we're able to raise enough money, or if this is working or becomes big, we want to get out. Maybe we're going to go to our own 501(c)(3) down the road. So, there will be provisions in the agreement, how do you do that? How do I get out of the fiscal sponsorship? And how do I set up my own 501(c)(3)? What will that cost me? Will there be a fee involved? Can I automatically do that, or will I need to get the approval of the fiscal sponsor to transfer the money to my new organization? That's a very important provision. [0:19:03]

There will be something about intellectual property rights. If we develop, if we're funding maybe the projection of a manual or a play or something, who's going to own the IP rights to it? The fiscal sponsor? Or the project? Same thing, if the project itself has physical assets. Let's say we're going to produce a piece of artwork. Who's going to own it when this is all over? Does the fiscal sponsor own it? Or will the project own it? If there are going to be any contracts that are entered into, or we need to contract with a construction company. We need to contract with some other contractor, who's going to do that? Is the fiscal sponsor going to enter into the contract, or is the project? There will be a discussion of insurance coverage, and we'll talk about that in a bit. And then there will be a description of what are the fees that are being charged for the fiscal sponsorship. [0:19:59]

Now, what do I think the advantages of the fiscal sponsorship arrangement are? Well, as we've talked about, simplicity. You can do this very quickly. Rather than taking the time and energy of setting up your own nonprofit, you can enter into a fiscal sponsorship agreement fairly quickly. So, if you've got a project where you need to move quickly, this is a good mechanism. You don't have to create your own charity and all the things that go with it. You don't have to do tax returns. You don't have to file for exemption. You don't have to necessarily raise your own state solicitation registrations, you won't have to do. The fiscal sponsor will do all those things for you. [0:20:43]

So, we talked about fiscal sponsorship is great for short term projects. Something that's going to come and go, and I don't need a long-term charity. Another role that a fiscal sponsor can play is as an incubator of projects. I've got an idea for a charitable concept, but I don't know if it's going to work or not. I don't know if I'm actually going to be able to raise money. I think I've got a great idea, but I'm not sure other people will see it as great. And I don't know if I'm going to be able to raise money. So, before I do all the work of setting up my own charity, I'm going to go to a fiscal sponsor and say, can you incubate my charity? Can I start here and see if it works? See if it actually raises money? And if it does, if it's successful, maybe then I'll move on and form my own thing. But if it doesn't, then I haven't gone to that trouble. [0:21:32]

One of the other advantages we talked about is foundations will make grants to fiscal sponsors because they're a 501(c)(3) organization, typically a public charity. So, they'll feel comfortable, once they've done their due diligence, making a grant to a fiscal sponsor. It would be helpful as we talked about in international grant making. And what I've seen more frequently is many companies that are setting up employee hardship programs, whether, and let me talk about them for a moment. [0:22:06]

There are two types of employee hardships. The first are ones that are called qualified disaster relief payments. Those are when a company sets up a fund to help employees who are victims of what are called a presidentially declared disaster. It's a flood. It's an earthquake. It's Katrina. They want to help their employees who are victims of that. Second are what are called emergency hardship payments. These are the ones that are sort of the more typical employee funeral expenses, uninsured health issues. Car broke down. Can't pay the rent. You know, fiscal sponsorship, because it's a public charity, an employer can set up one of these funds that will fund both types of payments. Private foundations can typically only fund the qualified disaster relief payments, the presidentially declared ones. Not the normal hardship ones. But a fiscal sponsor, because it's public, they can fund both. [0:23:10]

What are the negatives, I think, to setting up a fiscal sponsorship? Well, their fees. For all the work the fiscal sponsor will do, there are fees. And Chuck will talk about that. you lose a little bit of independence because the fiscal sponsor really is the driver of the charitable enterprise in the project, and the fiscal sponsor will determine whether to fund the project. So, you lose a little bit of independence. And perhaps you lose a little bit of good will, because the project is now housed at the fiscal sponsor rather than being your own project. And again, as we talked about, it's just very important that you need to make sure that the fiscal sponsor is well run, because there have been some examples recently where fiscal sponsors have not been well run, and there have been problems. And those have been in the news. [0:24:02]

Now, what are some alternatives that, you know, people get confused and say what are the alternatives to a fiscal sponsorship? Well, one is a donor advised fund. It just feels a little bit like a donor advised fund, or a DAF, because a donor advised fund is something where you know, I made contributions and I get to recommend. I don't have my own charity. The donor advised funds held at a charity, I contribute and then I decide where the money goes, or I can recommend where the money goes. But the difference is in a DAF, it's really set up more to make grants to multiple charities, whereas the fiscal sponsorship is really to fund one project or one charity. [0:24:40]

Another one that sometimes is an alternative in some cases is crowdfunding. You know, GoFundMe type things that you're probably familiar with. And the advantage of crowdfunding is look, you can do that really quickly. The money goes to another organization. But the difference between crowdfunding is it can fund any kind of project, not just a charitable project. It can fund somebody gets sick and you want to help somebody out who gets sick. But these are different than fiscal sponsorships, but they are alternatives to fiscal sponsorships. So, I'm going to stop now. I'm going to turn this over to Chuck to talk about some of the practical issues he's encountered in his experience running a fiscal sponsorship. So Chuck, let me turn this over to you. [0:25:32]

CHUCK ADKINS: Great. Thanks so much, Bob. I'm super excited to be here to talk about our organization and to talk about fiscal sponsorship in general. So, I'm the CFO for the Fund for Educational Excellence. We're a nonprofit in Baltimore City. And we're Baltimore City's only local education fund. So, what that means is that we work as a trusted partner with a school district teachers and students, and we connect them with funders, advocates, local nonprofits, to really ensure that we're helping to expand resources. Our goal is so that all children in Baltimore City Public Schools experience an effective and equitable education. [0:26:15]

Specific to this webinar, one way that we expand resources is by providing fiscal sponsorship services. We provide finance, grants management, human resource services to groups that typically do not have their own 501(c)(3) status. As Bob said, people use different terms when they're talking about fiscal sponsorship. And of course, we use the terms, we have set terms inside of our organization that we use. So, I want to make sure that I define those for a second. I use the term clients a lot. We take customer service approach to all of our work at the fund. And that includes fiscally sponsored projects and fiscal sponsorship. [0:26:56]

And because of that, you'll hear me talk about our projects as clients a lot. When I talk about fiscal sponsorship, I'm talking about the clients that are inside of us. We're using our EIN to run all aspects of their charitable activities. We use the term fiscal agent as clients that are outside of us. And we use their EIN and 501(c)(3) status to help guide them in running their own charitable activities. Some of our clients come to us and actually want to move through this pipeline. They come to us as a fiscal sponsor and they start internalizing operational skills that we provide through our policies and procedures, our systems. And then they start talking about wanting to go out on their own, or spin out of us. [0:27:45]

And one of the steps that we use at time is our fiscal agency, where they set up their own 501(c)(3) status. They set up their own policies and procedures. And we still provide some guardrails around them as they begin to move in that direction. They may come to us and say okay, we want to do grants management on our own. And we will stop doing that, and they will hire their own grant managers inside of their organization. They may say we want to start doing HR now, and we stop doing HR for them and turnover the logins for their payroll system and benefits systems to them, and they start running those on their own. And then finances as well. So, it's kind of cool in my opinion. I feel like, I talk a little bit about how we're able to put training wheels on, remove those wheels, but still put some guardrails around them. [0:28:39]

The services that we provide at the fund are grants management, contract issuance, human resources, and finance services. We do not provide our clients with fundraising or fund development services. And we also restrict the amount of federal funds, because we do not want to push down financial policies that were built for a single audit into our smaller fiscally sponsored clients. [0:29:08]

Linking back to Bob's slides, we provide model one and model three fiscal sponsorship. Model one clients for us typically feel like we're providing project management. A funder could approach us and say hey, we want to build a library at a school, and our fiscal sponsorship teams provide the management of that grant and make that library happen. Or, a group of people want to fundraise for a playground. And they come to us, we manage accepting all of those donations, providing the acknowledgement letters, and then we build the playground. [0:29:42]

Model three clients usually feel like our teams are their support or oversight offices for departments inside of us. So, some of these departments may have one part time employee and a budget of $50,000 per year. And other departments may have 30 employees with a budget of $4 million. Model three clients, also we require that they have advisory boards. They're not fiduciary boards, but they're advisory boards where the volunteer community is coming together to help provide input into their programming. But the fiduciary board is the fund's board. [0:30:23]

Bob also mentioned fees. We operate on a fee model. Our fees typically hit around 8%. You know, we ask questions like does the project or client have employees? Are there just a few large contracts or are there a lot of small contracts? Are there any government funds or government grants that require monthly financial reports? Are we cutting 300 checks for $20 each or three checks for $2,000 each? We also fee monthly on direct expenses, while some fiscal sponsors fee on revenue. [0:31:02]

At the fund, we have a few truisms as we think about this work in fiscal sponsorship. We hold these kind of dear to our hearts. I would say the first one is partnership and trust. It's I think one of the reasons that we think that we're successful at this. We think about how the client is out in the world. Their programming is running through our EIN. They're employees are technically our employees. And the client could damage us in some way. And you know, if we're not managing ourselves appropriately, we could actually damage the client or all of the clients. So this partnership and trust is something that we talk about through, when we bring on a new fiscally sponsored client or project. [0:31:44]

Another thing that we hold very dear is that we never use one client's cash to pay for another client's expenses. I'm not talking that we have bank accounts for all of these different projects that we have running through us. We use our financial system for this. But the philosophy of, if all of our clients decided to leave us at the same time, after we close them out, we want to be in a fiscal space to be able write checks to each of them for their fund balance. So, any cash fronting that we do for our clients comes from our own unrestricted cash reserves, not from our clients' equity. [0:32:21]

I hope you can tell that I'm really passionate about fiscal sponsorship. For me it's definitely not boring. There is always something new happening, something new to think about. But with that being said, I think there's a lot of things to think about when you are running a nonprofit that provides fiscal sponsorship. The top item for me is risk management. I'm constantly thinking about risk management. Many of my decisions on how to structure the finance and human resource departments think about risk management as well as our financial policies. Those are based around risk management. Even staffing decisions. I need to think about how you know, the entire team of people we have working in fiscal sponsorship, how their ability is to help mitigate risk. [0:33:09]

My colleagues are amazing. I love working with them. But as they go about their daily work with our clients, they're listening for things that may need further discussion. So for example, in a discussion recently it came up that one of our clients was starting to sell merchandise on our website. And you know, we hadn't talked about that in advance, and, but it just sort of came up in one of the conversations. But by the time that information was coming back in the finance department, and you know, we started asking questions about you know, are we tracking inventory? Are we thinking about cost of goods sold, and COGS. Are submitting state sales tax? So you know, we learn about things through these conversations, and it's really important to have an amazingly collaborative team of people behind the scenes who are talking together about what's going on with the projects and the fiscally sponsored clients. [0:34:03]

As I talk through some examples and some of the things that I've experienced, I hope you see how risk management gets woven into many, many aspects of this. So, I want to first start with staffing. I sort of mentioned it a minute ago, but typically in a typical nonprofit, the finance department, the human resource department, grants budgets, management, are all operations. These departments end up being classified as administrative on the 990 schedule. But in fiscal sponsorship, these departments and staffing are actually programming. This is programming that we are providing. As I said earlier, our fiscal sponsorship program actually allows us to accomplish our mission. It is linked to our mission. We are expanding resources through this work. [0:34:55]

But the staff who work on these teams, they actually need the ability to be able to pivot their perspective quite quickly. They need to be able to explain the financials and the business model to auditors or grant compliance officers who may not know what a fiscal sponsorship is, when they're coming in and looking at us. But at the same time, we have to have the ability to teach or coach our clients in plain language. So, an example of this is, we have a large multi-year grant from the Gates Foundation. And they selected us for a grant audit. And from their perspective, our fee was viewed as overhead, which meant that we needed to quickly pivot and present our financials, talk about our financials, through the idea that our fee wasn't overhead, and it was tied to the cost center of pulled expenses. [0:35:46]

And our staff is amazing at being able to do this. But it does require that you're able to, as I said earlier, pivot the perspective from are we talking about the whole organization? Just a slice of us? Just a slice of a slice of us? And be able to understand and present that information still clearly to people so that they understand it.

Another staffing issue that I think a lot about is capacity. We have all these little projects running through us. Some small, $50,000. Some large, $4 million. And it's really difficult to predict the clients' needs. Some weeks our payables have a volume of about 50 bills. And some weeks our payables have a volume of about 200. So, it's important to think about how capacity is going to be moving through your finance department, your human resource department, and things like that. [0:36:40]

And our new financial system, I'm in the process of developing some KPIs that can track our volume of these types of transactions. So, hopefully I can find some patterns. I'm looking forward to understanding that a little bit better so that I have at least some ability to predict what staffing and capacity needs are to see if there are any cycles throughout the fiscal year. [0:37:04]

Speaking of the accounting system, most accounting systems are really not set up for, to be able to filter by the balance sheet. So, if you think about the balance sheet, it's usually for the whole organization. But when we have fiscally sponsored clients inside of us, I frequently want to know what their accrual fund balance is and what their cash fund balance is. It's really important for me to know that in terms of the risk management, so I can see exactly how they're spending and making sure that none of our fiscally sponsored clients are overspending, or projected to overspend. [0:37:41]

Another thing specific to the financial and accounting system is we have a number of contra or reversing cost centers. And we have these mostly to maintain GAAP (Generally Accepted Accounting Principles) accounting standards. The biggest example of this is if you think about we have a cost center for us, and our fiscal sponsor, our fee there is looked at as revenue. But when you look at our clients' financials, their P&Ls, the fee is actually an expense. Well, since we're actually one organization, when we collapse our finances together, we can't have that. We have to reverse those entries. Because if not, we would be overstating our revenue and overstating our expenses. So, we do that through one of these reversing cost centers. So, my point behind this part of talking is that there's some really interesting things that have to be thought about inside of the financial system in order to deal with presentation of finances versus GAAP accounting standards and audit satisfaction. [0:38:46]

There are some other things that should be considered as you think about the sort of uniqueness of fiscal sponsorship. Contracts, binding. Are you going to let your clients bind contracts? If not, are you prepared for the increased workload that goes across your binding levels? Are those binding levels defined? Fixed assets. Leases. What are the financial risks and plans for taking on long term obligations? Think about leasing rental space. You know, in five years, is that fiscally sponsored client still going to be there? How do you navigate things of that nature? [0:39:29]

Projections. Since our fee is based on client spending, it makes it a little bit difficult to project our revenue. So as the CFO of a fiscal sponsorship organization, I have a little bit less control over trying to speed up burn rates. But our client burn rates or spin rates are tied to balancing our budget. So the fiscal sponsor cannot be running so tight that you cannot absorb a deficit one year and a surplus the next year, as the multitude of fiscal sponsorship is spending through you. [0:40:04]

I think a lot about the balance in oversight. As Bob mentioned, we are not a mere conduit. I take my fiduciary responsibilities seriously. And we maintain a high degree of review and control over signing contracts, disbursing funds, assuring charitable mission alignment. And maintaining budget driven financial reviews. That being said, we don't take credit for our clients' work. We don't require a name to be splashed all over the place. We really want our clients out front and center. We want them to be strategic about their own work, their own culture, as long as it aligns with our mission and fits within our systems. [0:40:47]

Insurance. We have a lot of insurance. So, insurance is really important in my opinion, in terms of mitigating risk and thinking about risk. New programming. You have to keep your eyes out for new programming that could be popping up. And if that programming that's moving around inside of your fiscal sponsorship, if it's sort of stretching outside of your current insurance policies. And you're constantly thinking about okay, how do I align my insurance policies with a very dynamic programming set inside of us? [0:41:23]

And you know, finally, I think about our fiscally sponsored projects. Our clients that have employees. I mean, legally these are our employees, the fund's employees. And I have to think about things like unemployment insurance, worker's comp insurance. Are you a contributor or a reimbursor for unemployment? How are you going to manage that? One client who may have a catastrophic worker's comp claim can actually cause the rate for everyone inside of us to have rate increases for years and years, even after that client is gone. So you have to think about how you mitigate these types of risk as you're navigating being a fiscal sponsor. [0:42:05]

And with that, I would love to turn it back over to Bob and see if we have any questions.

ROBERT WALDMAN: Sure thing. We've got lots of questions. Let me first interject before we go on, for those of you who are applying for CLE credit, the quote unquote magic word, let's use fiscal, F-I-S-C-A-L, as the word you'll need to fill out your CLE form. So, I'm not sure we'll be able to get to all the questions. We've got lots of them. But let me start with a couple. As you were talking, one that I think is you know, interesting to me and I think probably most of the people on this webinar are, how do I, you know, we talked about making sure the fiscal sponsor is a solid organization. What should either a donor, a donor foundation, or somebody you think is shopping for a good fiscal sponsor to house an organization. What should they be looking for to say oh, let's do it here versus there? [0:43:07]

CHUCK ADKINS: I think that's a great question. And I would look for mission alignment, one. Does that fiscal sponsorship organization have experience in the domain that they're talking about? One of the things that we work on and that we think is a key to our success is that we only work with partners who are connected into the educational sector in a local way. We have an amazing relationship with Baltimore City Public Schools. We have experience navigating a $2 billion finance department for contracting with the school district. So we have the experience of working with funders understanding how programming works for educational worlds. [0:43:52]

So I would say mission alignment would be number one. And the next thing I would think about is conducting a little bit of due diligence from the foundation side. You know, really looking at that fiscal sponsorship's financials. Asking them questions. Ask the fiscal sponsor, how do you isolate your programs in the financial system? How do you track the grants inside of that? Look at their audit. I would see how liquid they are. Doing fiscal sponsorship takes a great deal of unrestricted cash, especially as I said earlier if there's reimbursable grants. It's so important to have enough cash to be able to help a client bridge a 60-to-90-day receivable period while they're waiting for reimbursement on expenses that have already gone out the door. So those are some of the things that I would think about if I was looking into a fiscal sponsor. [0:44:50]

ROBERT WALDMAN: Just out of interest, how did the Fund for Educational Excellence ever get into the fiscal sponsorship business? You guys have your own programs that you've been running for, you have your own terrific programs you've been running for years. How did you get into the fiscal sponsorship program?

CHUCK ADKINS: That's a great question. I would say it definitely wasn't strategic. It was organic. So, I think it was about 10 years ago, a group of funders were talking about starting a new education based nonprofit organization in the city, and we had worked with many of these funders because of our role as the local education fund for Baltimore City Public Schools. So, the funders came together, and they ended up just housing organization inside of us. So that, and I guess we did it okay. We must have, because the word got out. People started putting more organizations inside of us. [0:45:41]

And I think in that first year, we were fiscally sponsoring about $500,000 worth of expenditures per year. And in FY21 we had about 20 million running inside of us with another 14 million in what we call fiscal agency. So I think that it's been slightly organic, and we've grown slowly at first and then we started scaling our systems in the last maybe three or four years.

ROBERT WALDMAN: Are there things that you think about and that a fiscal sponsor should think about when it's trying to decide whether to take on a new project? Or frankly to get out of a project? How do you think about that? [0:46:23]

CHUCK ADKINS: It's definitely, I mean I would say if you go back to your types, type one clients. The project management ones that sort of is the wording that I used. Those are much easier to bring in and out because they tend to start with us, and they end with us. However, when you move to a type three, it all depends on how complicated they are. If they're coming from another nonprofit organization that's housing them, you have to think about how many funding streams they have. Do those funding streams line up in a time period? Are they foundation funds? Are they government funds? [0:47:01]

So you know, when you're thinking about how to bring an organization in to you, it all depends on how complex they are. An example, we had one probably three, four years ago, that was about a $2 million organization that was coming out of one nonprofit and coming to us to be their fiscal sponsor. And it took us almost a year to get all of their funds out of that other entity. And sometimes it has to do with how, if the other entity is actually used to being a fiscal sponsor or if that is kind of a one off for them. We frequently have to help them. If you think about grant funding, in theory this organization just wanted to write us a check and say here's the fund balance. [0:47:47]

But you know, we had to say well, are there any restrictions there? Have you talked to the funders? Do they want their grant funds returned? And are they going to issue us a new grant? And lining up all of those grant timelines as well as the payroll is, it's a little bit of an art and science. For a while, we had part of their payroll in one nonprofit and part of their payroll in another nonprofit as we worked through that transition.

ROBERT WALDMAN: Are there specific thoughts, I'm interested in it, because this comes to us all the time. We get calls from funders saying gosh, all of a sudden they're telling us we're supposed to make the grant to a fiscal sponsor, and what's all that about? Are there things that, any specific guidance you would have for a funder who's thinking about funding, or presented with that opportunity to fund through a fiscally sponsored program? Are there special things they should be thinking about different from other grants? [0:48:43]

CHUCK ADKINS: I think so. One is the due diligence on the sponsor itself. So, you're not just signing up for the program work that you're looking at the grant making with. You're also signing up a little bit with that fiscal sponsor to make sure there's a relationship there that you're looking at their audit, their internal controls, things of that nature. But one of the biggest things that we joke with internally a little bit is, when there's a grant application and they say provide financials. Well, do they want our financials? Do they want the client's financials? Which perspective are they looking at? And a lot of times with the automated grant portals that are out there, there's not a lot of room for us to explain fiscal sponsorship, or delineate between these are our finances versus these are the fiscally sponsored client's financials. [0:49:32]

ROBERT WALDMAN: Do you think, I'm interested, are there any economies of scale in the fiscal sponsorship services you provide versus everybody providing their own? How do you figure that out?

CHUCK ADKINS: It's interesting. I would love to be able to calculate it. I haven't gotten there yet. However, I do think there are economies of scale. I sit around and I think about the number of audits that all of our clients would have to go out and separately purchase. And ultimately funders would have to fund. I think about the number of payroll systems that would be required and needed. The human resource systems. All of these things take capital. The starting up a nonprofit takes an immense amount of social capital. And we rarely think about that. [0:50:21]

And then on top of all of that, I think about how can our already established systems, our AP system and our account receivable system, you know, pushing ten more bills through our payable pipeline is much cheaper for us than pushing ten through a small nonprofit. You now, the other advantage that I see is that our clients get access to a multitude of staff expertise that they may not be able to afford if they were smaller. Our clients have access to a CFO, a finance director. Grant managers. Human resource specialists. Legal counsel. And as a small nonprofit starting out, you don't get those different levels of experiences. You don't have access to those, typically. [0:51:03]

And the other thing that I find sort of advantageous for some of our fiscally sponsored clients is that it's super easy for them to partner together. If two clients come together and want to create a conference, those are just splitting expenses and journal entries in my world, you know. They're not invoicing each other and billing each other and creating other systems. All we're doing is using the financial system to allocate these expenditures and the revenues at times. We also have clients who end up sharing space and operational costs. They rent a space together, share a copy machine. And it's super easy from our perspective in just allocating those costs. [0:51:44]

ROBERT WALDMAN: You know, it's interesting. You mentioned that FFEE does not provide fundraising services as part of your fiscal sponsorship. And yet some fiscal sponsors do. What's your thinking on not providing those?

CHUCK ADKINS: You know, this is something, we think quite frequently about what services we do provide. What is our sweet spot, what clients are the best fit for us. And the reason we don't provide fundraising services is we actually think it's a slight conflict of interest for us. We are the local education fund for Baltimore City Public Schools. So that means we fundraise for them. As you said earlier, we have a few of our own programs as well. We are fundraising for them. [0:52:29]

And for us, it would feel awkward to think about could there be any biases in there as we're going after grant funds, that could be in competition with our clients. So, because of that, we made the decision not to provide fundraising services. So, our clients when they come to us really do need some of those skill sets. We'll be glad to talk to them, strategize with them. But you know, coming into the Fund for Educational Excellence does require sort of thinking about where your revenue is coming from before you get inside of us.

ROBERT WALDMAN: That's interesting. I never thought about it, but I guess it's even conceivable that you could house programs that would have conflicts with each other. Because they're all looking to the same sources for money. [0:53:14]

RESPONDENT: Absolutely. And we try to stay a little bit agnostic of that to be honest. And we've worked a long time and have a huge amount of partnerships with the foundation world, because we will receive 12 grants from one foundation. And we have to talk with them, their boards, to make sure they understand that's because we're a fiscal sponsor. That really, this model is really going into these very discrete programmatic areas that, so we have to have those types of conversations about that as well. And you know, it sort of it made me think about another thing. Which is we have some really interesting intersections. Since we limit our clients to the educational sector in Baltimore City, they all know each other. They frequently work with each other. They may be on advisory boards of each other. [0:54:11]

And you know, so we do have some conflicts that we have to be aware of, or potential conflicts that we have to be aware of. Like if we have one staff member who's on the board of another staff member's client. And so it's just really important for us to have eyes and ears open, to be able to understand all of these interconnections that are happening inside of us.

ROBERT WALDMAN: I'm interested also in why FFEE charges fees on, why you base your fees on expenditures versus revenue. What's the thinking behind that? [0:54:47]

CHUCK ADKINS: Yeah, for me I think it better aligns with actually the work that we're providing. You know, we're processing our client's bills, issuing contracts, running biweekly payroll. You know, it's a regular, issuing monthly financials. It's a regular occurrence and cadence that happens throughout the year. And in the nonprofit sector, typically revenue from grants and foundations comes in very large chunks at very specific, you know, it could come annually. It could come semiannually. And for us, it feels like the work of what we do better aligns with their expensing than it does through the revenue generation. [0:55:26]

But at the same time, if you think about the nonprofit sector and how revenue recognition in the nonprofit sector is one of the most complicated things. You know, you have to think about grant claw back stipulations, deferred revenue, programmatic barriers. And all of those things can actually change the accounting of how the revenue is recognized. So for me it's a much stabler approach to doing our fees on the expenditures.

ROBERT WALDMAN: Look, we're at the end of our hour. And Chuck, I want to thank you. This was great. Thank you so much for joining us. I know we've got lots of questions, and Chuck and I will get back to each of you in the next week or so with your specific items. Sorry we don't have time to do them all right now. But we will get back to you all with those questions. We at Venable, you know, we love doing these webinars. They're fun and I hope you all enjoy them. [0:56:22]

We take November off typically I guess for Thanksgiving or whatever reason. But we take November, we'll be back in December. Maybe we'll be live again in December. We thought we would have been live in October, but events didn't really work our way. So maybe, who knows. Maybe December, we'll be live by then. So thank you all who joined us today. Thank you again Chuck for your participation. Have a good day and hopefully we'll see all of you again in December. So take care, all.

END TRANSCRIPT