

# **Fiscal Sponsorship: Six Ways to Tank your Organization**

**Fiscal Sponsor  
Conversations**

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# Use project funds to cover operational costs

- Do fiscal sponsors do this?
- Would this breach the restrictions placed on the project funds?
- Would this breach the fiscal sponsorship agreement?
- Could the fiscal sponsor's leaders be liable for lost project funds?
- **ADVANCED:** What about an intraorganizational loan from a project fund to the general fund subject to market rate interest?





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# Overextend on public grants – cash flow

- How much certainty can a fiscal sponsor have about receiving public grants?
- What if the fiscal sponsor can no longer make the certifications necessary to be eligible to receive/keep federal funds (e.g., DEI programs)?
- Are the project's revenues from public grants appropriately matched with its expenditures (e.g., are short-term grants being used to pay long-term obligations, including employee compensation)?





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# Lax or nonexistent board oversight

- Board isn't focused on or doesn't understand the fiscal sponsor's financials
  - Board is only focused on the non-FSP financials
- Board views fiscal sponsorship primarily as an additional source of revenues rather than as a strategy for advancing the mission
  - Board may not be providing oversight related to sufficient risk management and asset protection







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# Project expenditures beyond project revenues

- What prevents a project leaders from spending more than its revenues?
  - How would they know if their expenditures are based on expected revenues, which may or may not come in?
  - How do you manage fixed costs, including of non-temporary employees?
- Where does the fiscal sponsor get the money to pay the project's expenditures if the project has insufficient revenues?
  - What if the fiscal sponsor learns of the expenditure after the project has exited?
  - What if the project leaders leave or quit?





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# Substantial accrued vacation liability

- Balance sheet issues (factoring liability)
- Cash flow issue
- What happens if multiple employees quit or need to be laid off?







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# Lax cybersecurity controls



**+ Fiduciary Risks**

From Erin ...



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From Gene ...



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From Gene ...



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From Gene ...



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# Revocation of 501(c)(3) status





# Letters – Exams, Audits, & Subpoenas





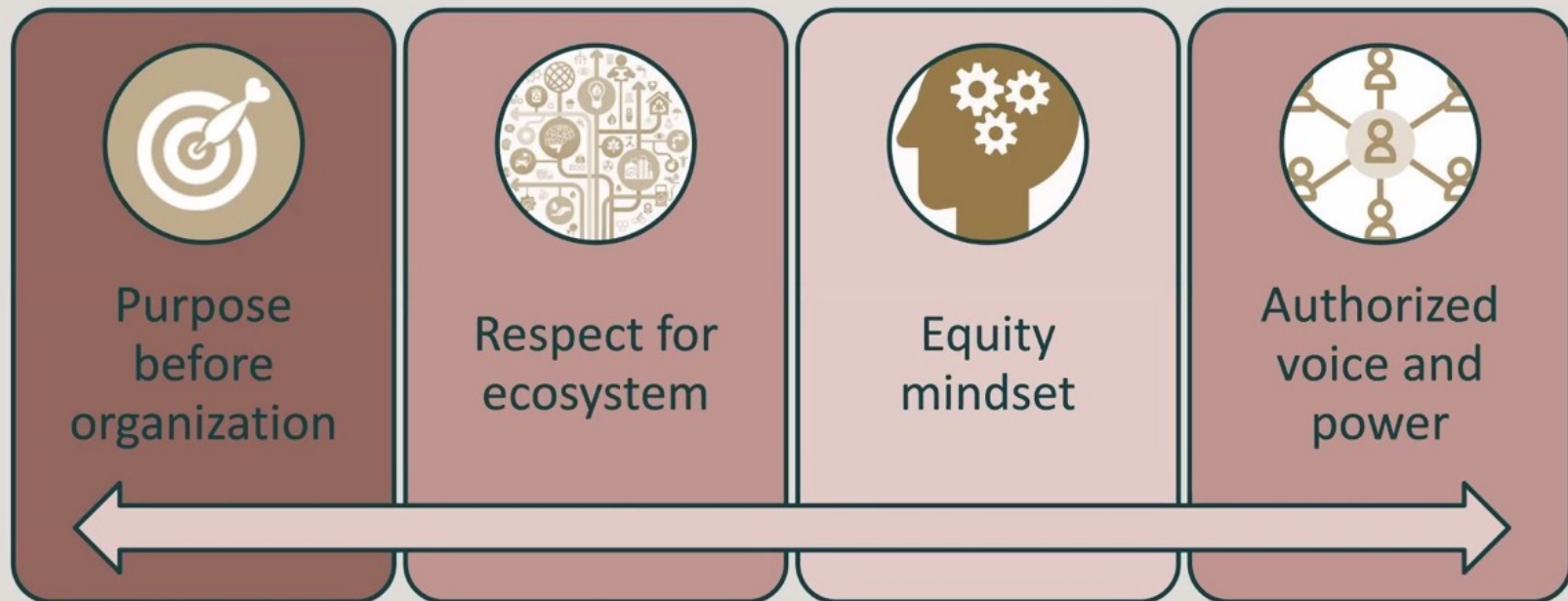


**GOOD  
GOVERNANCE**

# Purpose-Drive Board Leadership

BoardSource

## Four Principles of Purpose-Driven Board Leadership





# Disclaimer

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