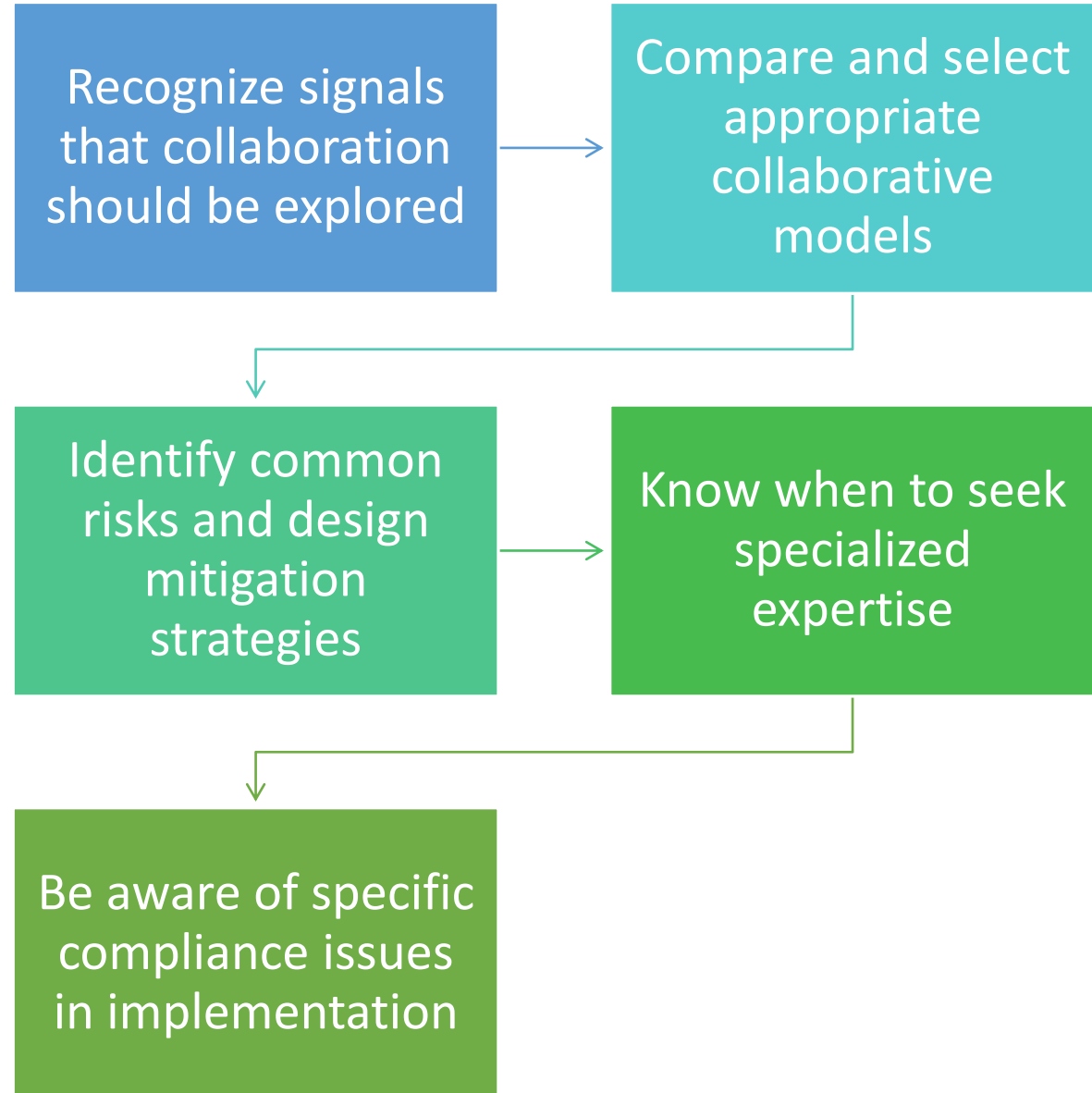




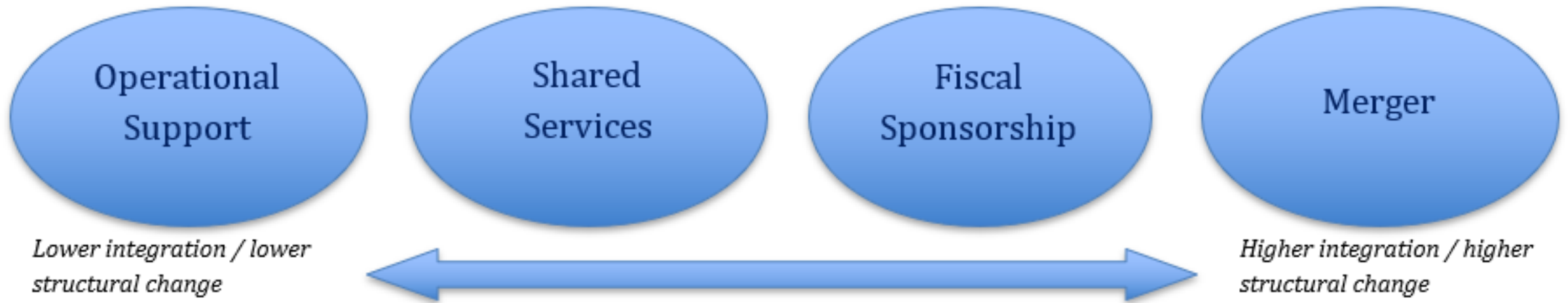
Collaborative Models for Nonprofit Sustainability

FISCAL SPONSORSHIP • SHARED SERVICES
• MERGERS

Learning Objectives



Collaboration Spectrum





When to Consider Collaboration

- Growth outpaces infrastructure and internal controls
- Funding concentration increases fragility
- Administrative burden diverts mission capacity
- Leadership transitions create strategic openings
- Duplicate programs exist in the same community

Due Diligence Lenses

Financial lens

Cash timing and reserves

Cost structure and fixed commitments

Restricted funding constraints

Quality of financial reporting

Operational & governance lens

Decision rights and accountability

Staffing model and supervision

Policy adherence and documentation

Capacity to execute change

Cultural fit





Fiscal Sponsorship

STRUCTURE, GOVERNANCE, FINANCIAL INTEGRATION, AND RISK
CONTROLS

What is fiscal sponsorship?

- To *act like* a public charity; have to *be* a public charity
 - Foundation grants
 - Contributions deductible to donors
 - Exemption from income tax
- Fiscal sponsorship = fiscal sponsor + sponsored program *or* sponsored project
- Various sponsorship models described in literature, but only one is true fiscal sponsorship



What Fiscal Sponsorship Is Not

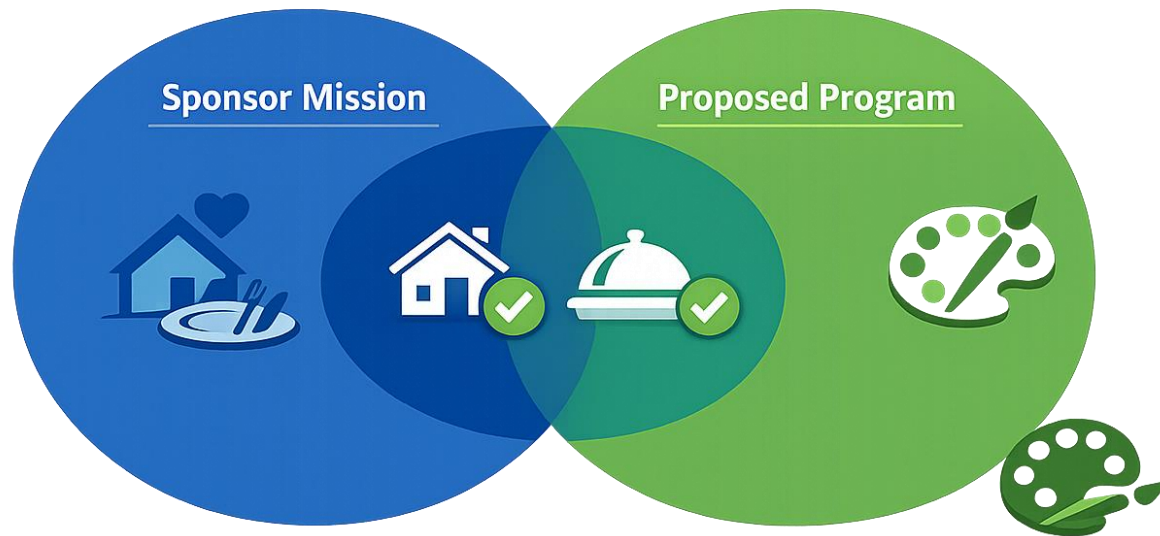
- Not a pass-through relationship
- Not an agency arrangement where the sponsor makes no decisions
- Not separate, off-ledger accounting by the program team
- Not exemption “lending” without oversight



Mission must be compatible

Homeless shelter organization

- a) Housing counseling program
- b) Meal program
- c) Arts education program



Governance: Decision Rights Must Be Explicit



Sponsor board
retains fiduciary
authority



Sponsor
management
supervises
operations



Program leadership
may be delegated
limited authority



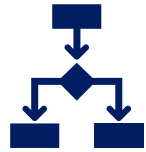
Advisory bodies
advise; they do not
govern

Decision Rights Matrix

	Program lead	Sponsor mgmt	Sponsor board
Budget approval			ultimate approval
Spending thresholds			
Hiring/ HR policy			
Branding/comms		ultimate approval	



Written Agreement: Minimum Elements



Purpose, scope, and
term of the
relationship



Roles and
responsibilities of
both parties



Delegated
authorities and
spending approvals



Reporting cadence
and required
reports



Exit terms and
disposition of assets



People and Policies

Program staff follow sponsor employment policies

Sponsor supervision applies to program operations

Volunteer policies and code of conduct still apply

Time reporting and approvals must be consistent



Accounting Integration Flow



Fund Tracking and Segregation

Track	Track program fund balance in sponsor records
Segregate	Segregate assets and liabilities by program
Prevent	Prevent obligations from exceeding available assets
Reconcile	Reconcile activity and report regularly



Restrictions must be tracked at the program level



Spending must align with documented purpose



Budget changes should trigger review and approval



Avoid informal “reallocations”

Restrictions and Use of Funds

Indirect Costs and Internal Pricing

Allocate Costs

Allocate shared costs using a documented method

Set Expectations

Set expectations for administrative support

Align Pricing

Align pricing with actual burden and oversight

Review Pricing

Review annually and adjust transparently



Percentage of program inflows

Transaction-volume based fee

Actual accounting/oversight cost plus markup

Periodic assessment with caps

Fee
Structures
(Common
Approaches)

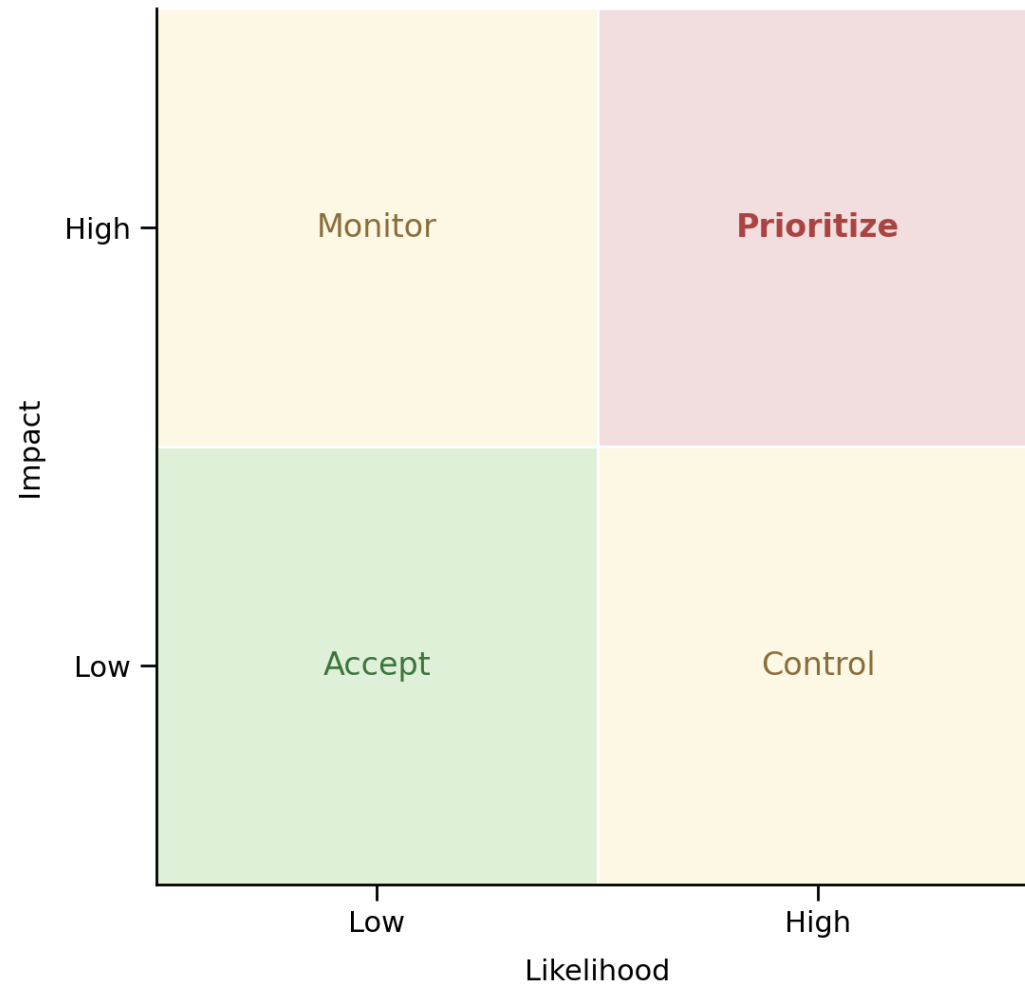
Reporting Package (What to Require)

- Fund balance summary
- Budget vs actual for the program
- Restricted funds status summary
- Open commitments and upcoming obligations
- Exception log for policy deviations

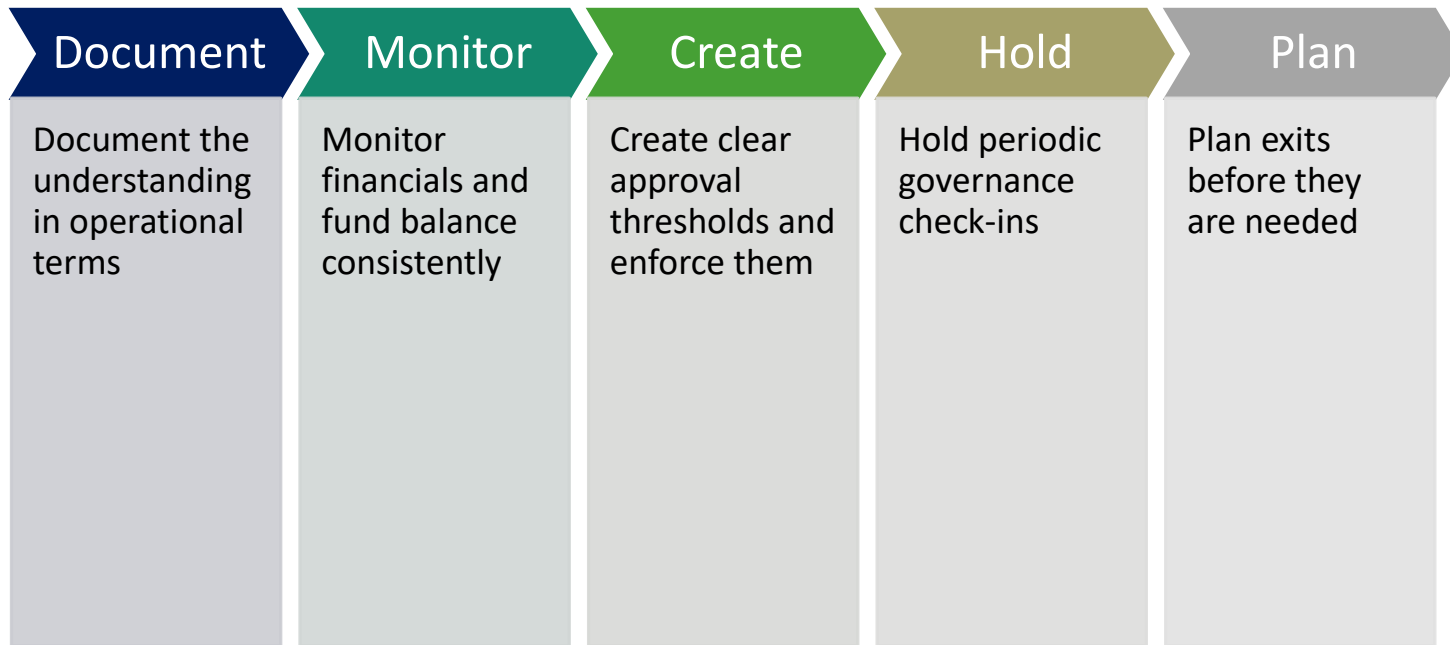
Red Flags

- Program team insists on separate bank control
- Sponsor lacks timely fund balance reporting
- Program spending approvals are informal
- Policies differ “for the program”

Collaboration Risk Triage



Risk Triage



Mitigation Playbook

Haefele Flanagan



CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Shared Services

EFFICIENCY WITHOUT GOVERNANCE INTEGRATION

Shared Services: What It Is

Separate entities retain independent governance

Back-office functions are shared or centralized

Cost allocation is documented and repeatable

Service expectations are explicit

Monthly close and financial reporting

Accounts payable and purchasing controls

Payroll administration

HR administration and onboarding support

Technology administration and access control

Typical
Shared
Service
Functions

Structuring the Agreement

Scope and deliverables (what is included/excluded)

Service levels and turnaround times

Approval authority and escalation path

Pricing methodology and true-ups

Data access, confidentiality, and retention

Shared Services: Risks and Mitigation

Dependency risk if one provider is overloaded

Cost disputes when allocation is unclear

Service disputes without objective standards

Control gaps if approvals are inconsistent



Operational Support vs Shared Services



Operational support is a vendor-style service relationship



Shared services is a jointly designed operating model



Both require documented scope and controls



Choose based on desired standardization and dependency

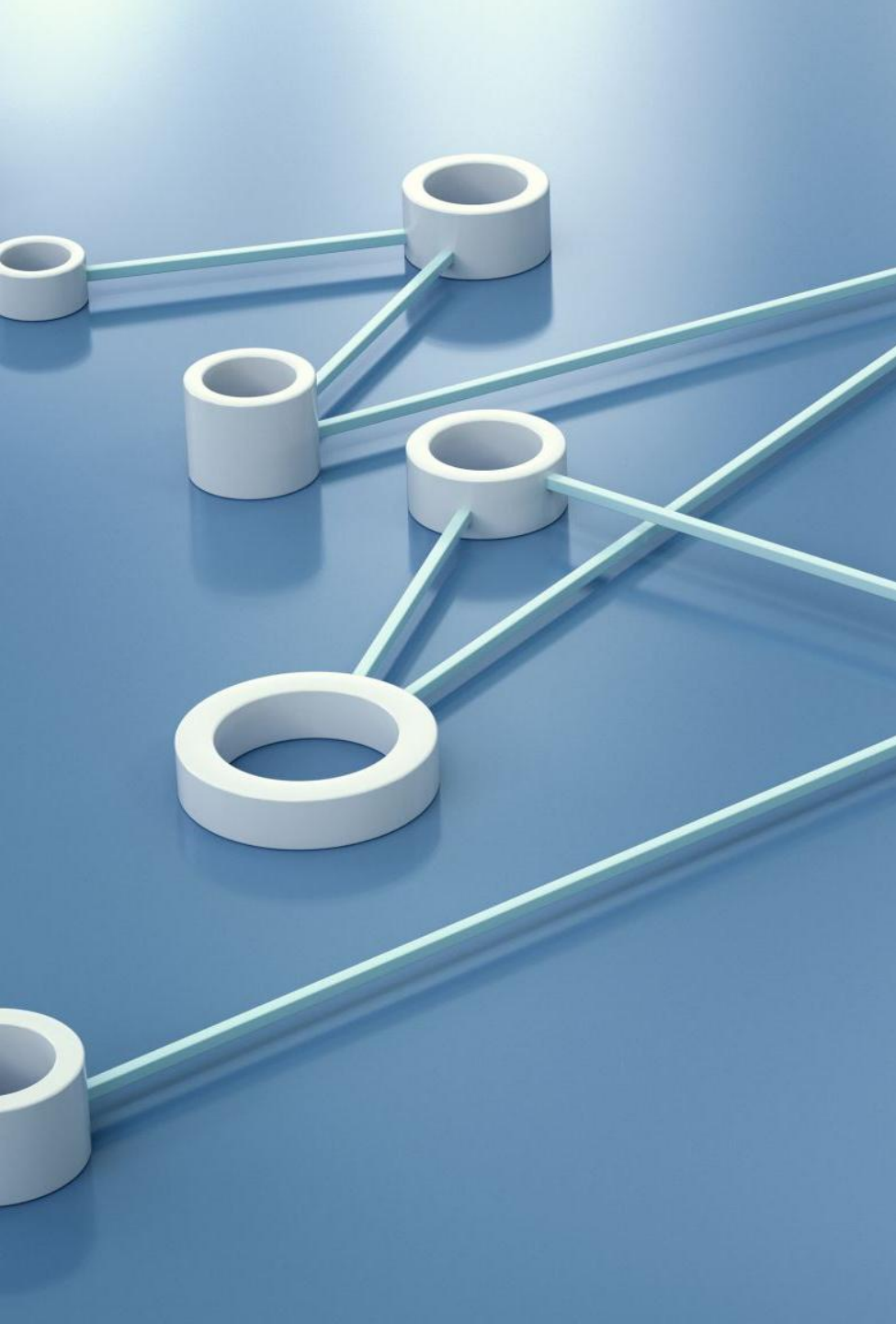
Haefele Flanagan



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Mergers

HIGH-LEVEL CONSIDERATIONS AND RISK CONTROLS



When a Merger Fits

- Two organizations have overlapping missions and markets
- A smaller organization has thin infrastructure
- Sustainability requires scale and continuity
- Long-term duplication undermines mission outcomes

Overview: Merger (Carryover) vs. Acquisition (Purchase Accounting)

Merger Accounting Features

Mergers involve shared control with a new governing body and use carryover accounting, recording assets at historical book value.

Acquisition Accounting Features

Acquisitions occur when one organization obtains control, requiring purchase accounting and recording assets at fair value with possible goodwill.

Governance Determines Treatment

The accounting treatment depends on governance control, not legal labels, guiding whether carryover or purchase accounting applies.



Due Diligence: Beyond the Numbers

Operational

Program
sustainability
post-integration

Systems and
data integration

Internal controls
and process
maturity

Key person
dependencies

People &
stakeholders

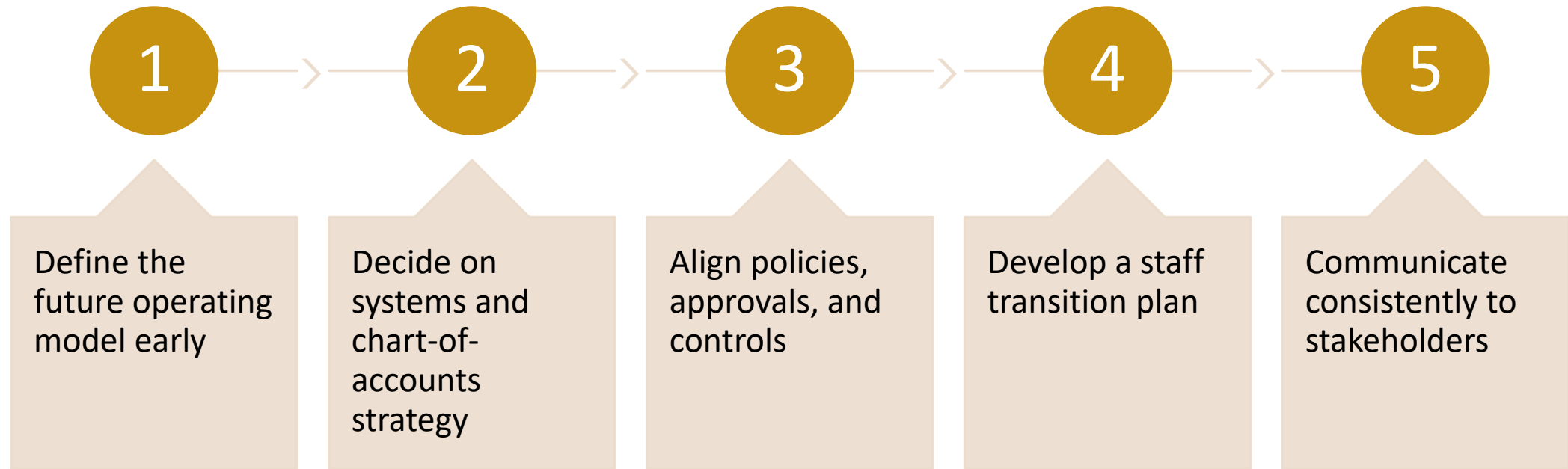
Culture and
decision-making
norms

Donor and
community
relationships

Staff retention
and role clarity

Communication
plan





Integration Planning Essentials

Haefele Flanagan



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Model Selection

CHOOSING THE RIGHT STRUCTURE AND ESCALATING
APPROPRIATELY

Comparison Factors (How to Think About Fit)



Speed to implement vs structural permanence



Governance integration vs independent governance



Operational standardization required



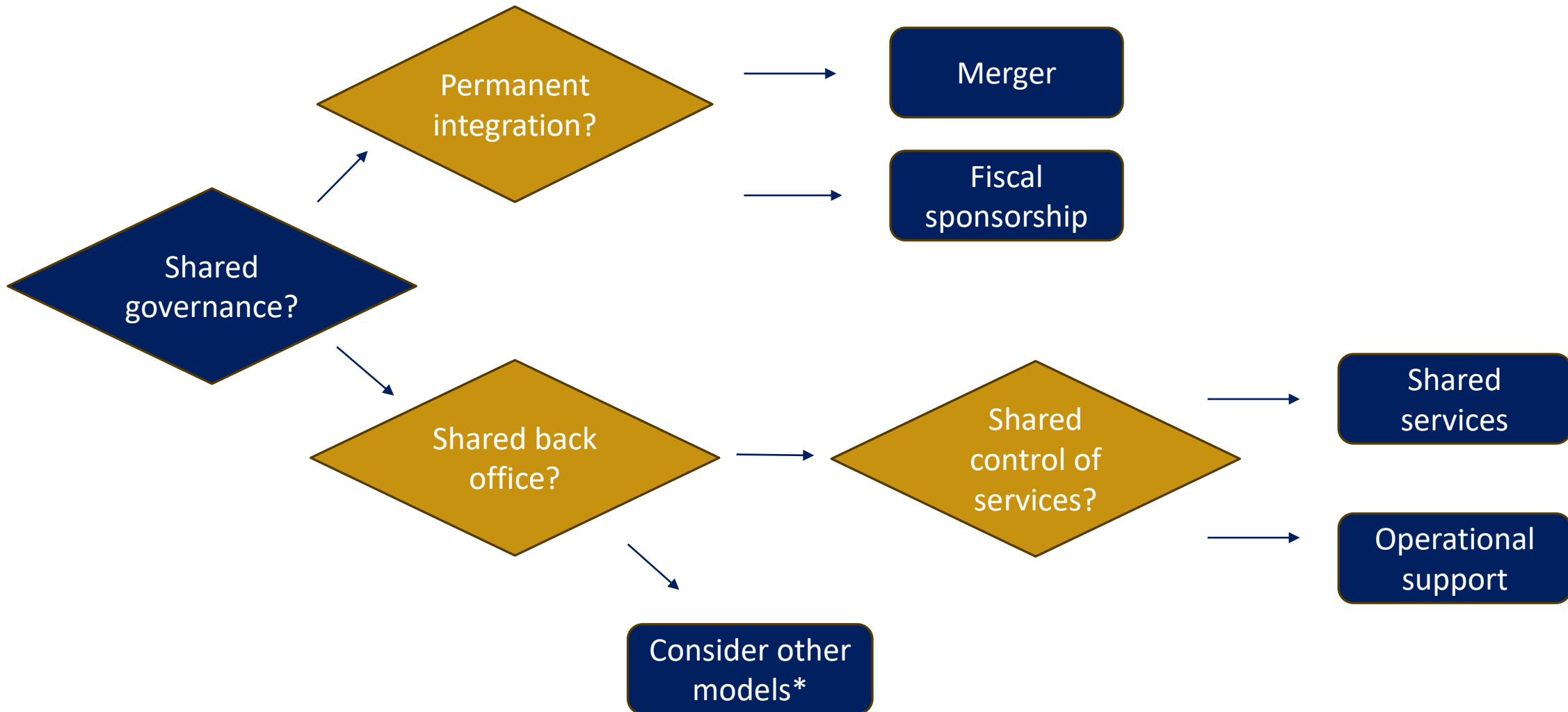
Reporting and control burden



Tolerance for change management



Simple Selection Decision Tree



*vendor relationship, grant relationship



Specialized Expertise



Drafting the agreement



Addressing contracts, liabilities, and any other commitments



Navigating operational integration or system changes



Designing the accounting system to capture all the data needed for the sponsored project



Managing sensitive stakeholder or staff transitions

Match	Match structure to intent, capacity, and risk
Document	Document decision rights and operational expectations
Integrate	Integrate accounting and reporting disciplines
Design	Design mitigation controls before launch
Review	Review collaboration health periodically

Key Takeaways

For More Information



NC Center for Nonprofits

www.ncnonprofits.org

919-790-1555



National Council of Nonprofits

www.councilofnonprofits.org/fiscal-sponsorship



Adler & Colvin – law firm’s site includes sample fiscal sponsorship agreements, short articles

www.adlercolvin.com



Me

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REPORTING, COMPLIANCE & AUDIT CONSIDERATIONS FOR NONPROFIT PARTNERS

COLLABORATIVE MODELS FOR
NONPROFIT SUSTAINABILITY: PART II

FINANCIAL REPORTING STRUCTURE

Shared services = two distinct entities and two sets of books

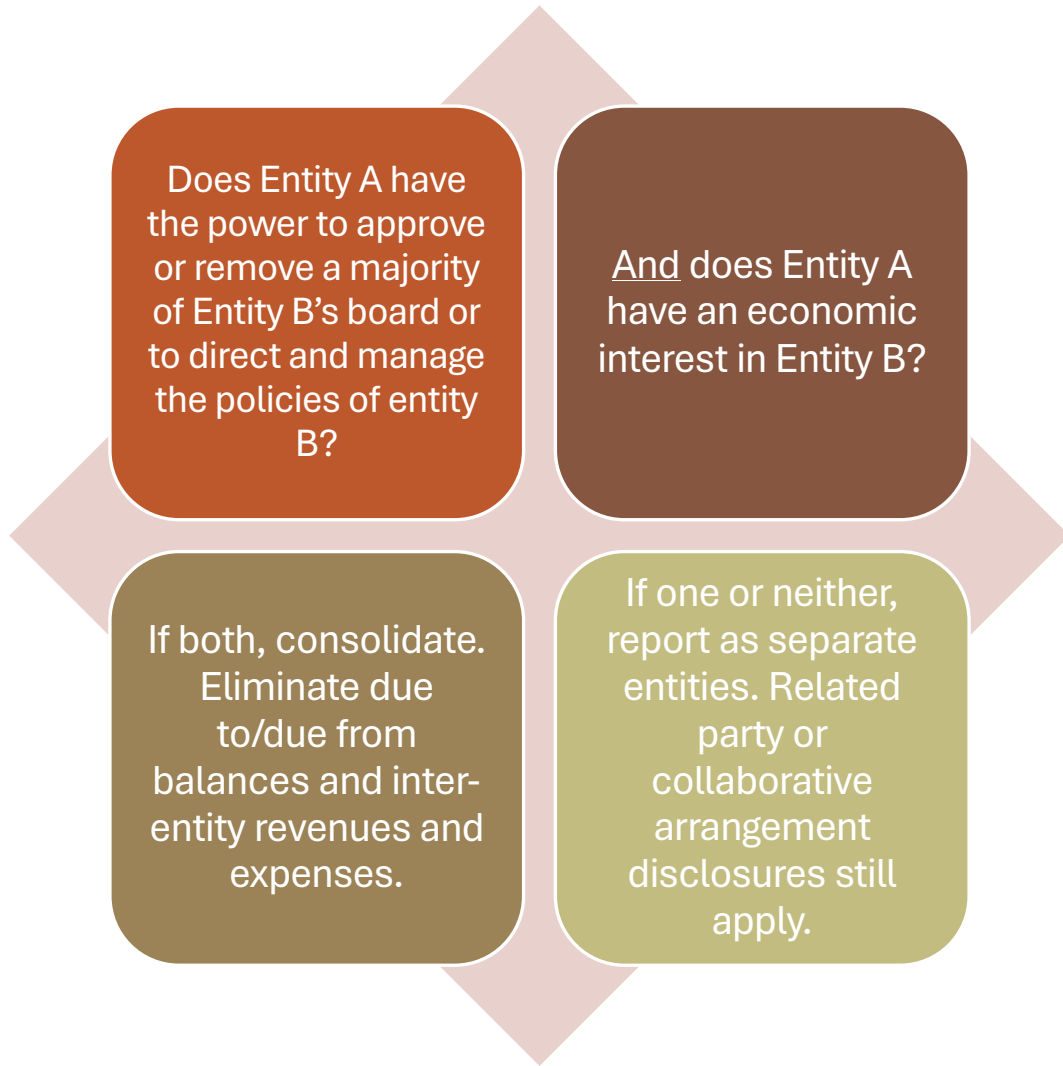
- Communication and controls are paramount
- Due to/due from accounting; use invoices and establish consistent timing: “We will invoice you by the 15th of the month for the previous month’s costs”
- Mirrored accounting
- Reconcile monthly; don’t wait until year-end to sync up
- Capture data in real-time for salary allocations and charges

Fiscal sponsorship = one entity with a stand-alone project and one set of books

- Sponsor uses special field/tag for coding sponsored entity (Class, Customer, Division)
- All of the sponsored entity or activity’s accounts must be included on the sponsor’s books
- Sponsored entity or project can later be spun off
- Restricted funds must be tracked
- Are fiscal sponsor’s fees an exchange transaction or contribution?

Merger of Equals = two distinct entities become one new entity with one new set of books

- Carry-over method used
- Differs from acquisition accounting
- Net asset restrictions carry forward
- Adjust to same accounting basis before combining
- Align depreciation method, capitalization policy, and other significant accounting policies going forward
- Contribution history of both organizations carries forward to new entity’s Schedule A calculations



Consolidation of Entities in a Shared Services Agreement: The Control Test

GAAP DISCLOSURE REQUIREMENTS

Major Program Descriptions

- Include narratives in footnotes describing each significant program *including any significant fiscally sponsored program*
- Present distinct columns for each significant program or sponsored project in functional expense statement

Related Parties and Collaborations

- Related Party - disclose nature and terms, revenue and expense amounts, amounts due to/due from
- Collaborative Arrangement – see next slide

Services Received from Affiliate

- Think donated professional services
- Record as both revenue and expense (not reported on 990)
- Commonly overlooked

Management Estimates

- Disclose cost allocation methodologies, including indirect costs

Commitments and Contingencies

- Disclose financial commitments inherent in agreements
- Termination clauses and any indemnification provisions

FASB ASC 808 – COLLABORATIVE ARRANGEMENTS



In addition to ASC 850 requirements for disclosure of related party transactions, ASC 808 requires active participants in a joint or collaborative activity that are exposed to significant risks and rewards to disclose:



The nature and purpose of the arrangement



The entity's rights and obligations thereunder



Relevant accounting policy disclosures



Income statement accounts and amounts

WHAT'S YOUR 990 RELATIONSHIP STATUS?

Affiliate

Another organization with which you share a meaningful operational, governance, or financial relationship whether or not control exists

Related Party

Parent/Child, Brother/Sister, Supporting/Supported
GAAP definition considers not just control but influence

Controlled Entity

May be consolidated for financial statement purposes but still reports separately on its own 990

Supporting Organization

A specific type of IRS exempt status

Support reported on Schedules A and R

Disregarded Entity

For example, a single member LLC established by an NFP for activities like construction or real estate acquisition

New Org with Exempt Application Pending

Retroactive deductibility of contributions to date of entity formation if filed within 27 months

990 COMPLIANCE: WATCH YOUR STEP!



The 990 is a public document; collaborative arrangements will be fully visible

Reminder: Mission alignment!

Watch transfers from c3 to non-c3 orgs!

- 501c3 may not underwrite the expenses of or contribute to a non-c3 entity in any way
- Document shared overhead, facilities and/or staff ***carefully***

Schedule C - Lobbying by Affiliated Groups

- Check instructions regarding affiliated groups and requirement to consolidate reporting of lobbying efforts

Schedule D, Part IV - Escrow and Custodial Arrangements

- EXPLAIN how you are not “lending out” your exempt status!!

Schedule R disclosures

- Often overlooked and under-reported; the test is ***control*** not operational independence
- Take care to show mirrored transactions and amounts on both returns, even if Part V not required



990 ALPHABET SOUP

Page 7	Report officer/director compensation from <u>all</u> related organizations
Schedule A	Report supporting organization's monetary <u>and</u> non-monetary support
Schedule C	Consolidate lobbying activity?
Schedule D	Report escrow and custodial arrangements
Schedule I	Report grants to affiliated organizations
Schedule L	Report officers/directors with financial interests in related entities
Schedule R	Identify related orgs and report transactions between them
Schedule O	Provide narratives of governance and policy



FEDERAL AWARDS & SINGLE AUDIT CONSIDERATIONS

Uniform Guidance 2 CFR 200

Costs charged to federal grants be allocable, allowable, and reasonable.

Cost allocations in collaborative arrangements are a frequent finding in federal single audits.

Mergers

The resulting new entity that inherits open federal awards must ensure grants are properly novated (transferred) to the new legal entity.

Continuing to draw on a grant awarded to a predecessor entity without novation is a compliance violation.

Fiscal Sponsorship

A fiscal sponsor that receives federal grant funds for a sponsored program is responsible for federal compliance standards — including risk assessment, agreement terms, reporting, and potentially on-site visits. Monitor the program team's documentation!

AUDITING STANDARDS: WHAT YOUR AUDITOR IS REQUIRED TO DO



**Statements on Auditing
Standards Nos. 134-140**

**AUC Section 550, *Related
Parties***



**Additional Procedures over
Related Party Transactions**

To Detect Unauthorized
Transactions

To Detect Exceptions Granted



**Additional Inquiries about
Related Party Transactions**

Business Purpose

Transaction Details

Internal Controls

Concerns

ADDITIONAL AUDIT PROCEDURES

Inspect underlying contracts and agreements

- Business rationale
- Terms
- Accounting matches terms

Read board minutes

Consider external confirmation of terms and amounts with partner organization

Evaluate financial statements for complete identification and disclosure of all related part transactions

Evaluate fraud risk if related parties were undisclosed

Obtain written management representations

Communicate with those charged with governance

SUMMARY

NFPs can save resources by collaborating, but be careful to select the right collaboration model

Be aware of the cultural and compliance implications of each collaborative model

Keep a clean house! Use appropriate bookkeeping structure, establish agreed upon routines, and address concerns proactively with written agreements

Use terminology carefully

Understand the required GAAP disclosures

Understand how the 990 may differ from financial statements

Transparency helps minimize confusion and ultimately risk