GREATER SALINA
**community
foundation**

Grantmaking Due Diligence
Policy and Procedure

Due Diligence Policy

The Greater Salina Community Foundation practices due diligence prior to making a grant to confirm that the grantee is a charitable organization and that the grant is for a charitable purpose.

The Foundation is committed to grantmaking best practices and due diligence that include, but are not limited to, the following principles:

- Grants are made only for charitable purposes.
- Grants are only made to organizations that are well managed, fiscally and programmatically.
- Grants are only made to organizations that are capable of fulfilling the terms of the grant (including donor intent) and provide the Foundation with required evaluative reports.
- Grants will not be made to organizations, projects or programs that discriminate as outlined in the Foundation's Nondiscrimination Policy.
- No Foundation staff member or family member shall benefit from any grant.
- No board member, committee member, advisor or donor who is involved in the grant review recommendation of a grant shall receive benefit.
- Grants and expenditure responsibility are made as required by the Pension Protection Act of 2006.

Conflict of Interest Policy

All Foundation staff, board members, committee members, advisors or donors who are involved in a grant review or recommendation of a grant sign an annual Conflict of Interest Statement that indicates organizations in which they have potential conflicts.

In addition, all Foundation grant and scholarship committee members are asked at the beginning of each review cycle to mark if they have a conflict of interest with any particular grant or scholarship application. If a member has marked conflict of interest, that member does not participate in the review process for that application.

All Donor Advised Fund advisors sign a statement on their donor recommendation form that states they have received no personal benefit for each grant they recommend.

Expenditure Responsibility

The Foundation shall exercise expenditure responsibility when making a grant for a charitable purpose that is not a Grants may be made to a public charity, private operating foundation, religious, education or government entity. Public charity is defined as a 501(c)(3), 509(a)(1), 509(a)(2), or 509(a)(3) organization.

(See Appendix A to determine if a grantee requires expenditure responsibility).

If it is determined that a grantee requires expenditure responsibility, the Foundation will perform the following due diligence:

1. **Pre-grant research:** The Foundation will conduct a reasonable investigation of the grantee to assure that the grantee is capable of performing the charitable activity outlined in the grant request.
2. **Grant agreement:** The grantee organization will sign a grant agreement that defines the charitable purpose supported by the granted funds.
3. **Separate accounting:** In order to keep charitable dollars from co-mingling with non-charitable dollars, the grantee must establish a separate account for the granted dollars.
4. **Reporting:** The grantee must provide regular status reports on the expenditure of the funds and the progress made in fulfilling the charitable purpose as defined in the written agreement.
5. **Report to the IRS:** The Foundation shall report any grant that requires expenditure responsibility as required on the federal tax return, including the grantee name, expenditure amount, and charitable purpose.

Due Diligence Procedures

1. All Foundation grants must be made for a charitable purpose.
2. Grants may be made to a public charity, private operating foundation, religious, education or government entity. Public charity is defined as a 501(c)(3), 509(a)(1), 509(a)(2), or 509(a)(3) organization.
    a. The Foundation will not normally make grants to private non-operating foundations.
    b. In exceptional circumstances, grants may be made to other types of nonprofit organizations and businesses so long as the funds are used for a charitable purpose and expenditure responsibility is exercised.
3. Prior to awarding any grant, the Foundation staff will verify the charitable status of each grantee using one of more of the following methods:

a. Internal Revenue Service, Exempt Organizations Select Check, http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

b. Grantee's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling

c. GuideStar's Charity Check

d. Verification of church status for houses of worship and affiliated schools not found on the above lists

e. Copy or screen shot of the home page for a government entity (city, county, town, school district, etc.)

f. Assistance from counsel, if necessary if determination is still not clear

Unrestricted and Field of Interest Funds

1. Prior to the grants committee review, all grant requests are reviewed by Foundation staff for the following:
   - Compliance with fund guidelines and criteria
   - Completeness of applications
   - Clarity of request
   - Definition of need and community impact
   - Project timeline, goals and projected results
   - Charitable status of organization—is expenditure responsibility required?

2. Grant requests are passed onto a grants committee for review. Prior to reviewing each grant application, each committee member must mark if he/she has a conflict of interest with organization applying. If a conflict is marked, that member must abstain from reviewing that grant application.

3. Grant recommendations are made by the grants committee to Foundation staff and grantees are notified if their proposal was approved or denied.

4. Approved grantees must sign a grant agreement form prior to grant funds being released stating the funds will be used for the designated charitable purpose.

5. If the Foundation elects to make an expenditure responsibility grant, it will follow the process as outlined in this policy and procedure. The Foundation may also elect to withhold payment of the grant until proof of completion is submitted.

6. All grant recipients must provide a grant report within 30 days of their project completion or 1 year within receiving the funds (whichever is soonest) to verify that the funds were spent on the designated charitable purpose.

Designated Funds

1. Prior to establishing a designated fund, Foundation staff will verify that each designee is a public charity, educational, religious or government entity.

2. The Foundation will not normally make grants from designated funds that require the exercise of expenditure responsibility. This includes grants to nonprofit organizations that are not public charities and grants to businesses.

3. If the Foundation elects to make an expenditure responsibility grant, it will follow the process as outlined in this policy and procedure. The Foundation may also elect to withhold payment of the grant until proof of completion is submitted.

4. Designated fund grants are generally distributed once each year in May. Requests for an alternative distribution month may be made to the Foundation and will be noted in the database.

5. If a grant from a designated fund has restrictions, a letter explaining the terms of the grant is included with the grant check that states by accepting the grant, the grantee certifies that the grant will be used solely for the charitable purpose as intended by the donor. Depending on the restrictions or size of the grant, the Foundation may also request a grant agreement be signed by the grantee, as well as a follow up report.

Organization Fund Grants

1. Prior to establishing an organization fund, Foundation staff will verify that the organization is a public charity. If it is a government entity (public library, municipality, etc.), verify that it is permissible under Kansas law.

2. Organization fund payouts are issued at the request of the organization.

Donor Advised Fund Grants

6. The Foundation will not make the following types of grants from a donor advised fund:
   a. Grants to individuals, including grants payable to a school, college or university for the benefit of an individual selected by the Foundation
   b. Grants or other similar payments (including expenses reimbursements) to donors, advisors, and related parties
   c. Any grant for a purpose that is not charitable, including bifurcated expenses (i.e. event tickets that include meal reimbursement with proceeds to charity)
   d. Any grant to a private non-operating foundation
   e. Any grant that is considered payment for a legally enforced pledge

7. Grants made to the following types of supporting organizations from a donor advised fund require expenditure responsibility in accordance with the Pension Protection Act of 2006:
   a. Type III non-functionally integrated supporting organization
   b. Type I, II, and III supporting organizations where the donor or donor advisors directly or indirectly control the supported organization.

8. The Foundation will not normally make grants from donor advised funds that require the exercise of expenditure responsibility. This includes grants to nonprofit organizations that are not public charities and grants to businesses.

9. If the Foundation elects to make an expenditure responsibility grant, it will follow the process as outlined in this policy and procedure. The Foundation may also elect to withhold payment of the grant until proof of completion is submitted.

10. If a grant from a donor advised fund has restrictions, a letter explaining the terms of the grant is included with the grant check that states by accepting the grant, the grantee certifies that the grant will be used solely for the charitable purpose as intended by the donor. Depending on the restrictions or size of the grant, the Foundation may also request a grant agreement be signed by the grantee, as well as a follow up report.

Appendix A- Expenditure Responsibility Checklist

The purpose of expenditure responsibility is to ensure all grants are charitable. Use the following checklist to determine if a grant requires expenditure responsibility.

Additional expenditure responsibility may be required for grants from donor advised funds to supporting organizations in accordance with the Pension Protection Act of 2006.

1. **Verify the charitable status of the organization.**
   Is the organization a public charity, private operating foundation, religious, education or government entity? Public charity is defined as a 501(c)(3), 509(a)(1), 509(a)(2), or 509(a)(3) organization.

   Resources to determine status:
   a. Internal Revenue Service, Exempt Organizations Select Check, https://www.irs.gov/charities-non-profits/tax-exempt-organization-search
   b. GuideStar's Charity Check (available in Foundant C-Suite & GLM)
   c. Organization's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling
   d. Organization's Form 990 (available via Guidestar.org or Foundant GLM)
   e. Verification of church status for houses of worship and affiliated schools not found on the above lists.
   f. Copy or screen shot of the home page for a government entity (city, county, town, school district, etc)
   g. Assistance from counsel, if necessary if determination is still not clear

2. **Determine if Expenditure Responsibility is needed.**
   Grants made to organizations that <u>are not</u> a public charity, private operating foundation, religious, education or government entity require expenditure responsibility.

3. **Is the grant being made from a donor advised fund?**
   Donor advised fund grants to <u>supporting organizations</u> may require expenditure responsibility. See the "Donor Advised Fund Expenditure Responsibility Checklist," to determine if expenditure responsibility is needed.

Donor Advised Fund Expenditure Responsibility Checklist

In accordance with the Pension Protection Act of 2006, grants from donor advised fund to supporting organizations may require expenditure responsibility if the supporting organization is a:

- Type III non-functionally integrated supporting organization
- Type I, II, and III supporting organizations where the donor or donor advisors directly or indirectly control the supported organization.

How to Determine a Supporting Organization's Status:

1. **Verify public charity is a supporting organization.**
   To determine if the organization is a 509(a)(3) supporting organization, use one of the following sources:

   - Internal Revenue Service, Exempt Organizations Select Check, https://www.irs.gov/charities-non-profits/tax-exempt-organization-search
   - GuideStar's Charity Check (available in Foundant C-Suite & GLM)
   - Organization's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling
   - Organization's Form 990 (available via Guidestar.org or Foundant GLM)

2. **Determine the Supporting Organization's Type.**
   To determine a supporting organization's type and whether it is functionally integrated with the organization its supports, first check the following:

   - Internal Revenue Service, Exempt Organizations Select Check, https://www.irs.gov/charities-non-profits/tax-exempt-organization-search

   If the supporting organization is listed as "unspecified," in the Exempt Organizations Select Check, the Foundation may rely on a reasoned written opinion of counsel of either the grantee or the Foundation in making the determination that a supporting organization is a Type I, Type II, or functionally integrated Type III organization, or the Foundation may use one of the following methods:

   - **For Type I or Type II Supporting Organizations:** The Foundation may obtain, review and rely on a written representation signed by an officer, director, or trustee of the grantee if both of the following are true:
     - o The representation describes the process used for selecting the grantee's officers, directors, or trustees and references the pertinent provisions of the grantee's organizing documents that establish the grantee's relationship to its supported organizations
     - o The Foundation collects and reviews copies of the grantee's governing documents. If the grantee's organizing documents are not sufficient to establish the relationship, the Foundation must also collect organizing documents from the supported organization.

- **For a Functionally Integrated Type III Supporting Organization:** The Foundation may obtain and review:
    - o The grantee's written representation identifying the organization it supports
    - o The grantee's organizing documents (and those of the supported organizations if necessary)
    - o A written representation signed by an officer, director or trustee of each supported organization stating that the supported organization is functionally integrated and that but for the involvement of the supporting organization, the supported organization normally would engage in those activities itself

3. **Determine if There is Donor Control Over the Supporting Organization**

   After determining a supporting organization's type, the Foundation must also consider if a donor or donor advisors directly or indirectly control the supported organization. IRS Section 4942 regulation defines control if a donor or donor advisor can, by aggregating their votes or positions of authority, require the supported organization to make, or refrain from making, an expenditure.

   If it is determined that the donor or donor advisor indirectly or directly controls the supporting organization, expenditure responsibility must be exercised.