



Building the Foundation of Community in our Region

Due Diligence and Expenditure Responsibility Policy

GENERAL DUE DILIGENCE PROCESS FOR GRANT APPLICATIONS OF ALL FUND TYPES

1. Staff reviews all grant applications utilizing the Grant Informational Cover Sheet. Information reviewed includes:
 - Recommended grant meets donor’s intent documented in fund agreement.
 - IRS Determination Letter or other status provided
 - If donor does not have their status proof on hand, NPCF will utilize IRS Publication 78
 - Most recent 990
 - Most recent financial statements (audited if available)
 - Organization Mission & Goals
 - Current list of Board of Directors
 - Authorized signatures
 - Charitable status and charitable purpose

2. Once staff has reviewed the grant applications for completeness using the above steps, applications are forwarded to the Board of Directors for approval

ADDITIONAL DUE DILIGENCE PROCESS FOR DONOR ADVISED FUNDS GRANT APPLICATIONS

Certain types of grants are prohibited under Pension Protection Act of 2006. They include:

- Grants to individuals, including grants made directly to an organization for the benefit of a specific individual.
- Grants to donors, advisors or related parties
- Grants for non-charitable purposes.

The NPCF board and staff are required to follow the expenditure responsibility rules when such is required by law or policy. Grants to organizations listed in Section §170(b)(1)(A) of the Internal Revenue Code do not require any further investigation. However, the following types of organizations require “expenditure responsibility” for grants made to them from donor advised funds:

- Organizations other than those listed in Section §170(b)(1)(A)
- Type III organizations that are not functionally integrated

- Any type of supporting organization if the donor advisor (or related parties) of a donor advised fund controls the supporting organization or an organization that the supporting organization supports

To fulfill this requirement, NPCF keeps a written file of the IRS determination letters of all organizations receiving grants from the donor advised funds. For those organizations not providing or having an IRS letter, NPCF staff will access the IRS Business Master File on the IRS website and make a notation of each such organization for our file. These notations include the grantee’s name, public charity classification, date of search and origin of information (IRS Business Master File). The website for the BMF is

<http://www.irs.gov/taxstats/charitablestats/article/0,,id=97186,00.html>.

The following steps should be followed to determine whether a grant recommendation from a Donor Advised Fund requires expenditure responsibility:

- Verify that the organization is a public charity by checking its status in IRS Publication 78, the organization’s IRS determination letter.
- Determine if the public charity is a supporting organization from one of the following sources:
 - a. The IRS Business Master File (BMF) and the potential grantee’s IRS determination letter, or
 - b. IRS Publication 78 through their “Select Check” search on their website IRS.gov
- If the grantee organization is a supporting organization, determine if it is a Type I, Type II or Type III (functionally integrated) organization in one of the following two ways:
 - a. Grantee organization may provide:
 - i. Documentation describing the selection process of its officers and directors
 - ii. Documentation referencing the pertinent provisions of their organizing documents that establishes their relationship to its supported organizations
 - b. Collect and review copies of the grantee’s governing documents. If they are not sufficient to establish the relationship, collect organizing documents from the supported organization.

Type Determination

Type Number	Description
I	“operated, supervised, or controlled by” the supported organization
II	“supervised or controlled in connection with” the supported organization. These are the rarest types of organizations.
III	“Operated in connection with” the supported organization. These will

	most commonly be organizations that were NOT established by the supported organization, but rather by private individual.
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If it is determined that the grant applicant is a Type III, collect the following to determine if a Type III organization is functionally integrated:

- Letter from the grantee identifying the organizations it supports
- Grantee organization's governing documents (and those of the supported organizations, if necessary)
- Letter signed by an officer, director, or trustee of each supported organization that the supporting organization is functionally integrated and that but for the involvement of the supporting organization, the supported organization normally would engage in those activities itself.

If a Type III supporting organization is NOT functionally integrated, expenditure responsibility is required for grants from donor advised funds.

Expenditure responsibility is also required for grants to any type of supporting organization if the donor advisor (or related parties) of a donor advised fund controls the supporting organization or an organization that the supporting organization supports.

Expenditure responsibility requires:

- Conducting a pre-grant inquiry including a reasonable investigation of the grantee to ensure that the proposed activity is charitable and that the grantee is able to perform the proposed activity.
- Executing a written agreement with the grantee that specifies the charitable purposes of the grant and includes provisions that prohibit use of the funds for lobbying activities and require the grantee to return any funds not used for the designated purposes.
- Requiring the grantee to maintain the grant funds in a separate fund so that charitable funds are segregated from non-charitable funds.
- Requiring the grantee to provide regular reports on the use of the funds and the charitable activity supported by the grant.
- Including a report on Form 990 about the grant including a brief description of the grant, the amount, the charitable purpose and the current status of the grant