



National Standards Accreditation

Section 1a: Document Review for Legal Compliance

If you are concerned about the complexity of any of your legal documents, please contact the National Standards staff at submissions@cfstandards.org to set up a conversation about your questions or concerns.

Please attach the following documents for legal review in PDF format. Please remove all security features from your documents before saving them and uploading them. Failure to do this may result in the file not converting properly when uploaded.

- Articles of Incorporation and/or trust documents that are signed and dated by the appropriate corporate officer, such as the corporate secretary; you can also provide a copy of the corporate signing authority.
- Bylaws that are signed and dated by the appropriate corporate officer; you can also provide Board minutes showing approval.
- Confidentiality and Privacy Policy
- Conflicts of Interest Policy
- Grantmaking Due Diligence Policy, including expenditure responsibility
- Financial statements for the most recent 12 month period
 - o For community foundations with over \$5 million in assets, this is your audited financial statements with disclosure notes and management letter by an independent CPA
 - o For community foundations with assets under \$5 million, this is your financial statements with disclosure notes reviewed by an independent CPA. If supporting organizations' assets are not included in the audit, you must submit this documentation.
 - o NOTE: If your community foundation has a qualified audit because one or more of your supporting organizations' assets are not included in the audit, you must submit additional documentation to past National Standards. Please see additional information [here](#).
- Fund agreement for each type of fund that you have and market (multiple attachments)
- A gift acknowledgement for each type of gift you accept (multiple attachments)
- Most recent Form 990 with signature of preparer and appropriate corporate officer or Form 8879 proof of signature (if 990 was submitted electronically), including all schedules and attachments (Schedule B does not have to be provided in your application, but should be redacted if you decide to provide it.
- Gift Acceptance Policy
- Each type of grant agreement



- Investment Policy
- IRS Determination Letter: Must show 170(b)(1)(a)(vi) to be compliant
- Nondiscrimination Policy
- Record Retention Policy
- Spending Policy
- Social Media Policy: A social media policy applies to the use of websites and applications that enable users to create and share content or to participate in social networking.
- Whistleblower Policy

Section 1b: Document Review for Legal Compliance

While your foundation is not required to undertake the following activities, if it does, please attach the legal documentation that is requested. *If you are concerned about the complexity of any of your legal documents, please contact the National Standards staff at submissions@cfstandards.org to set up a conversation about your questions or concerns.*

- Donor Advised Fund Policy or Guidelines that reflect the legal regulation of donor advised funds that you share with the donor
- Donor Initiated Fundraising Policy
- Fiscal Sponsorship Agreement
- Fiscal Agency Agreement
- Scholarship Policy or Guidelines
- Does your community foundation observe reasonable protections for scholarship applicant information?

*** Notes:**

- o The field has moved away from collecting social security numbers of students and asking for parental/household financial information beyond the FAFSA or a similar student aid report.
- o Think about whether you have a thoughtful process for how you keep student and parent information confidential as you distribute information to the scholarship committee, collect that information back, and store it.

Nondisclosure rules can vary from state to state. If your state requires more, you must go beyond the foundation's privacy/confidentiality policy and record retention policies.



Section 1c: Document Review for Legal Compliance

Stress Test for the Board's Legal and Fiduciary Control

The following questions represent business model trends for community foundations. This section may require further information or a call with the National Standards Director and legal review team so that there is a clear understanding of your work and your leadership in the field.

- 1.c.1. Are you a named supported foundation of any Supporting Organizations?
- 1.c.2. Do you hold or manage any assets in a form other than a component fund? In other words, do you manage assets that you don't own? For example do you manage assets as a broker/dealer for agency funds that came to the foundation as a transfer rather than a gift to a fund?
- 1.c.3. Does your foundation comply with state insurance regulations for charitable gift annuities?

Section 2a: Mission, Structure, and Governance

National Standard 1 – Meeting the Definition of a Community Foundation

A community foundation is a tax-exempt, nonprofit, autonomous, nonsectarian philanthropic institution supported by the public with the long-term goals of:

- Building permanent, component funds established by many separate donors to carry out their charitable interests;
- Supporting the broad-based charitable interests and benefitting the residents of a defined geographic area, typically no larger than a state; and
- Serving in leadership roles on important community issues.

Directions: To meet the National Standards definition of a community foundation, the community foundation must comply with the following elements. This definition is woven throughout the spirit of the National Standards compliance process and is reflected in other sections.

1.1. Did your board approve of the National Standards definition of a community foundation in the Board Resolution for National Standards submission?

- Yes
- If no, cannot submit

1.2. Is your community foundation in good standing with the IRS?

- Yes
- If no, cannot submit

1.3. Is your community foundation currently compliant with all required annual corporation and trust document filings in the state(s) where it is incorporated and operates (if different states)?

If you are not sure, please visit the attorney general's office exempt organizations website for the states where you are incorporated and operate. You can also find information at <http://www.nasconet.org/> and state specific information at <http://www.nasconet.org/documents/u-s-charity-offices/>.

- Yes
- If no, cannot submit



National Standard 2 – An Independent Board that Reflects the Community

A community foundation has an independent governing body that ensures that the community foundation reflects and serves the breadth and diversity of the community.

2.1. Are all board officer positions and the minimum number of board seats filled (according to your bylaws and state's law)?

- Yes
- If no, cannot submit

2.2. Before selecting your board nominees, did your board discuss board composition and diversity in relation to the community's composition and diversity?

- Yes
- If no, cannot submit
- Attach the signed board or board level committee minutes that reflect that conversation, including a discussion of community composition data such as Census data. The application also allows you to add notes for the board minutes, if necessary.

National Standard 3 – Foundation Control over Component Funds

A community foundation's governing body retains variance power by which it may modify any restriction or condition on the distribution of assets, if circumstances warrant. Further, with respect to assets held in trust, the governing body must have the power to replace any participating trustee for breach of fiduciary duty.

3.1. Does your foundation have a process for making a material change to a fund agreement and determining when the board needs to vote on those changes?

- Yes
- If no, cannot submit

3.2. If your community foundation has assets held in trust, does your board understand that they have sole and independent power to:

- a) Replace any participating trustee, custodian, or agent for breach of fiduciary duty; and



b) Replace any participating trustee, custodian, or agent for failure to produce a reasonable return of net income over a reasonable period of time?

- Yes
- If no, cannot submit
- Not applicable because our community foundation is not in trust form.

National Standard 4 – Advance the Foundation’s Mission, Strategy, and Policies

A community foundation’s governing body is responsible for the mission, strategic direction, and policies of a foundation.

4.1. Does your community foundation state its mission consistently across its marketing and communications (e.g., annual report, website, letters to donors)?

- Yes
- If no, cannot submit

4.2. Did your board provide input, review, and approve the foundation’s strategic plan?

- Yes
- If no, cannot submit
- Attach the Strategic Plan

4.3. Does the board receive updates at least once a year on the foundation's work that aligns with the strategic plan?

- Yes
- If no, cannot submit
- Attach at least one example of board minutes from the last two years that demonstrate board oversight of the strategic plan’s implementation.



National Standard 5 – A Board and Staff that is Responsible for Operational Health

A community foundation's governing body ensures the financial health and sustainability of the foundation by:

- a. Ensuring adequate human and financial resources that are used solely in furtherance of the foundation's mission,
- b. Approving the foundation's budget and monitoring performance related to the budget,
- c. Ensuring sound oversight and transparency of investment and spending policies and practices, and
- d. Holding the foundation's chief executive officer (or equivalent in the case of all-volunteer foundations) accountable for the operations of the foundation.

5.1. Does each employee receive and sign an employee handbook that is kept up to date and meets the legal requirements of the state where you are incorporated?

- Yes
- If no, cannot submit
- Not applicable

5.2. Does the organization's hiring process comply with applicable laws including the Americans with Disabilities Act, <http://www.eeoc.gov/>?

- Yes
- If no, cannot submit

5.3. When is the last time your foundation reviewed its insurance needs, including coverage, adequacy of policy, limits, and deductibles (e.g., directors and officers, building and content, employment practices, unemployment, liability)?

- In the last year
- In the last five years
- In the last ten years
- More than ten years



5.4. If the foundation uses outside fundraisers, does it have an audit mechanism to ensure that all collected funds are remitted to the organization (e.g., planned giving advisors, online vendors, professional fundraisers, and event planners)?

- Yes
- If no, cannot submit
- Not applicable, we do not use outside fundraisers

5.5. Does the board approve the budget each year?

- Yes
- If no, cannot submit
- Attach the previous year's budget that includes revenues and expenses. The application also has a section to enter notes for the budget, if needed.

5.6. Does the board receive budget reports on a regular basis that include the foundation's activities and analysis of budgetary variance?

- Yes
- If no, cannot submit

5.7. Did your foundation become aware of any significant diversions of the foundation's assets in the past two years? A significant diversion is one required to be reported on Form 990 (Form 990, Part VI, Q.5 and instructions)?

- If yes, the reviewer will look at the Form 990 for more information.
- No

5.8. Has your foundation been notified that it is under investigation by a federal or state regulator in the past two years (including an IRS Audit)?

- If yes, provide an attachment explaining the circumstances and, if applicable, the outcome.
- No

5.9. Does the community foundation have an annual performance review process for the CEO?

- If yes, attach the performance review document (it can be a blank template or redacted copy).
- If no, cannot submit



5.10. Is the CEO's compensation set by the board based on the performance review and a review of a relevant salary survey?

- Yes
- If no, cannot submit

National Standard 6 – A Board that Approves and Monitors Policies and Grants

A community foundation's governing body approves and monitors policies regulating the ethical operations of the community foundation, ensures that the community foundation meets all legal requirements, and approves all grants.

6.1. Does each board member receive the following information (often in the board handbook):

- board job description
 - board level committee job descriptions
 - current copy of governing documents
- Yes
 - If no, cannot submit

6.2. Does the foundation retain board minutes in accordance with its document retention policy?

- Yes
- If no, cannot submit

6.3. When a policy or governing document is drafted or revised, does the board approve the policy?

- Yes
- If no, cannot submit

6.4. Does the board receive reports from each board level committee at least once per year?

- Yes
- If no, cannot submit

6.5. Do the board minutes reflect that the board approves all grants required by internal policies (this may include ratifying staff related approvals for grants)?

- Yes
- If no, cannot submit

6.6. Does your board follow the applicable state laws when making decisions by teleconference or written consent? Note: many states require unanimous written consent via email, this information is usually found in your state's corporations law and regulations. Please answer "Not applicable" if your community foundation does not make decisions by teleconference or written consent.

- Yes
- If no, cannot submit
- Not applicable

6.7. How many times did your board meet last year?

- 0 = cannot submit
- 1
- 2-4
- 5-6
- 7-12

If your board did not meet in person at least once in the last year, was it due to a disaster or emergency?

National Standard 7 – A Board that is Independent

A community foundation's governing body is not controlled by any other nonprofit foundation; by any single family, business, or governmental entity; or by any narrow group within the community it serves.

7.1. Do your bylaws state that the board is the ultimate governing body?

- Yes
- If no, cannot submit

7.2. To meet this standard, provide written job descriptions or scope of responsibilities for board members. This information is often included with the board handbook. The peer reviewer is looking for descriptions that are more specific than generic fiduciary and officer duties.

- Attach job description



7.3. Is the board chair independent of the executive director and foundation management?

- Yes
- If no, cannot submit

7.4. Are all directors, officers, volunteers, and third-party fundraising consultants annually required to review and sign a written acknowledgement of the conflicts of interest policy? **AND** Are all employees required to review and sign a written acknowledgement of the conflicts of interest policy as frequently as is required by state law?

- Yes
- If no, cannot submit

7.5. Provide one example of board or board level committee minutes that demonstrates that your community foundation has reviewed a conflict of interest. If the minutes do not include a narrative of how the issue was worked through and resolved, please include a brief narrative with that information in addition to the board minutes. A board member raising a conflict and abstaining is one example of what you could provide.

Attach board minutes; the application also includes a section to type in any notes for the board minutes, if necessary.

National Standard 8 – Board and CEO Compensation

A community foundation's governing body oversees a clearly articulated process for board governance and serves without compensation (exclusive of the chief executive officer).

8.1. Do any of your board members receive compensation from the community foundation for their service as a board member exclusive of the chief executive officer? The reviewer will cross check this information against your Form 990.

- If yes, provide narrative explanation of who and why.
- No
- Attachment (only required for a "yes" response)



8.2. Is your CEO's compensation recorded on the Form 990? The CEO's compensation must be listed regardless of what that salary is. Here is the IRS citation for more information:
[http://www.irs.gov/Charities-&-Non-Profits/Form-990-Part-VII-and-Schedule-J-Reporting-Executive-Compensation-Individuals-Included-\(Tip-%231\)](http://www.irs.gov/Charities-&-Non-Profits/Form-990-Part-VII-and-Schedule-J-Reporting-Executive-Compensation-Individuals-Included-(Tip-%231))

- Yes
- If no, cannot submit
- No, the foundation does not have staff

National Standard 9 – A Board with Oversight and Control of Geographic Affiliates

A community foundation's governing body maintains oversight and control over geographic affiliates. A geographic affiliate is a component fund (or collection of component funds), established within or by the community foundation, serving a defined geographic region and under a common advisory group.

Expanded Definition of a Geographic Affiliate (or similarly named body)

National Standards defines a Geographic Affiliate (or similarly named body) as a component fund (or collection of component funds) established within or by the community foundation that serves a defined geographic region and is under a common advisory group. These affiliates operate under the legal control of the applicant community foundation. For example, a fund that serves a particular county in your service area with its own advisory board but whose activities are under the control of the applicant community foundation would fall under this definition. In contrast, a women's fund serving your entire service area would not meet this definition. Separately incorporated charities, including supporting foundations, are also not covered by this definition.

9.1. Does your community foundation host geographic affiliates as defined in this section?

- Yes, continue to question 9.2
- No, continue to National Standard 10

9.2. Does the chief executive officer or his/her designee of your community foundation explain the following information – verbally and in writing – to the advisory committee chair of the affiliate fund?



- a) Affiliates are organized as geographic component funds of the community foundation;
 - b) As a component fund of the community foundation, the geographic affiliate is not independent; and
 - c) The host community foundation has overriding governance authority.
- Yes
 - If no, cannot submit

Section 2b: Resource Development

National Standard 10 – A Board and Staff Actively Developing Broad Support

A community foundation has, or is actively working to develop, broad support in the form of contributions from many separate, unrelated donors with diverse charitable interests and accepts and administers diverse gift and fund types to meet the varied philanthropic objectives of donors and the needs of the community it serves.

NOTE: The asset development plan may be a component of strategic plan.

10.1. Does your board have a plan to develop long-term support from many separate unrelated donors? This usually includes development of unrestricted assets that are under the discretion of the board?

- Yes
- If no, cannot submit

10.2. Does the board discuss and review the asset development plan at least annually?

- Yes
- If no, cannot submit

10.3. Has the foundation registered with the appropriate state and local authorities in each state in which the foundation is soliciting contributions? (Click here for more information: www.nasconet.org or <http://www.multistatefiling.org/>)

- Yes
- If no, cannot submit
- Not applicable in the states where we solicit contributions

10.4. Please attach your community foundation's development plan.



National Standard 11 – The Board Secures Discretionary Resources

A community foundation has a long-term goal of securing discretionary resources to address the changing needs of the community it serves.

To meet the National Standards definition of a community foundation, the community foundation must comply with the following elements.

11.1. Soliciting Discretionary Funds – Does your asset development plan include a long-term strategy to raise unrestricted dollars that can be used for operations and discretionary grant making?

- Yes
- If no, cannot submit

National Standard 12 – The Board Demonstrates Legal and Fiduciary Control

A community foundation's governing body has legal and fiduciary control over all contributions received, adopts appropriate gift and fund acceptance policies, and makes these policies available upon request.

12.1. Does your community foundation make gift and fund acceptance policies available upon request?

- Yes, available on the website
- Yes, website states available upon request with contact information
- Yes, internal policy states available upon request
- If no, cannot submit

Section 2c: Stewardship and Accountability

National Standard 13 – A Board Oversees Fund Management and Financial Records

A community foundation is a steward of charitable funds, which invests and prudently manages funds and maintains accurate financial records.

13.1. Are records retained in accordance with federal and state law and the foundation’s record retention policy?

- Yes
- If no, cannot submit

13.2. Does the board receive interim and annual financial statements at board meetings such as a balance sheet, income statement, and cash flow statement?

- Yes
- If no, cannot submit

13.3. Does the board annually receive a report on how its investments performed in relation to its investment policy?

- Yes
- If no, cannot submit

13.4. Who reviews and reports investment performance to the board?

- A board committee with investment experience
- A community foundation staff member with investment experience
- The investment firm managing the funds
- A third party firm that reports back on the board’s due diligence
- Other, please explain



National Standard 14 – The Board is Accountable and Transparent about Programs and Finances

A community foundation is accountable to the community it serves and demonstrates this accountability by regularly disseminating information on its programs, finances, investment, and spending policies.

Sample Public Disclosure Policy – *The Foundation will make available for public inspection the last three years of its tax documents, including Internal Revenue Service Forms 990 and 990-T (if applicable), any audit, and its tax exempt letter. If the request for any of these documents is made in person, the requested documents will be provided on the day of the request if possible. If the request is in writing (including email), copies will be provided within 30 days of the request. The requestor may be charged a reasonable fee for the cost of copying, plus storage. Questions concerning documents should be addressed to either the Executive Director or Board Chair of the Foundation.*

14.1. Does the foundation post its most recent Form 990 to its website or to Guidestar?

- Yes
- If no, cannot submit

14.2. Does the foundation post its last three IRS Form 990-Ts to its website or to Guidestar or have a public disclosure statement that if they are filed they will be posted?

- Yes
- If no, cannot submit

14.3. Does the foundation make public an annual summary of its activities and financial status (this could be pages of the foundation’s website, an annual report, etc.)?

- Yes
- If no, cannot submit



National Standard 15 – The Foundation Maintains Fund Records

A community foundation maintains a written record of the terms and conditions of each component fund and all applicable records must reference the variance power.

15.1. Do you keep a fully executed fund agreement including any addendums and meeting notes that reflect donor intent for each component fund?

- Yes
- If no, cannot submit

National Standard 16 – Board and Staff Honors Donor Intent and the Law

A community foundation honors the charitable intentions of its donors, consistent with community needs, and maintains a balance between donor involvement and governing board control, in accordance with all applicable laws and regulations.

16.1. Do you keep records that are used by your community foundation to provide your staff and board with understanding of the donor’s intent for each executed fund agreement or gift instrument (this can be notes or addendums in your donor file)?

- Yes
- If no, cannot submit

16.2. Please select all of the ways that your community foundation demonstrates understanding of donor intent:

- Periodically reviews gift agreements with living donors to determine if permitted changes are necessary such as succession planning for donor advised funds and clarifying the purpose of a fund
- Keeps records of planning conversations and donor conversations
- Maintains internal documents showing discussion of donor intent when making grants from the fund such as board minutes or the materials provided to the board for grant making ratification/voting
- Other, please explain



16.3. If your community foundation engages with third-party gift planners or fundraisers does your foundation take the following actions?

- a. Check that the third part participant(s) are registered with the appropriate state authorities,
- b. Properly report these fundraising expenses on the foundation's Form 990, and
- c. Disclose to donors information regarding the third party relationship such as the name of the third-party and the financial benefit provided to the third-party.

- Yes
- If no, cannot submit
- Not applicable, we do not engage third party gift planners or fundraisers

16.4. If you allow your donors to initiate fundraising activities, do you share your donor initiated fundraising guidelines or policy with them?

- Yes
- If no, cannot submit
- Not applicable

16.5. Does the community foundation award all scholarships in compliance with the following?

- a. The community foundation board approves all members of the scholarship committee by name and the staff checks to make sure the donor, donor advisor, or related parties do not control the selection process.
- b. The community foundation ensures that the donor, the parties related to the donor, or donor advisors do not directly or indirectly control the committee;
- c. All grants are awarded on an objective and nondiscriminatory basis using a procedure that has been approved in advance by the board of directors of the sponsoring organization and that has been designed to ensure that all such grants meet the regulatory requirements for scholarship programs?

- Yes
- If no, cannot submit
- Not applicable because the community foundation does not have scholarship funds.



National Standard 17 – The Board Has and Makes Public the Annual Audit

A community foundation has an annual audit (or financial review, when assets total less than \$5 million) that is performed by an independent public accountant, reviewed and accepted by the governing body, and made available to the public upon request.

17.1. Does your community foundation have an audit committee or a committee that serves that purpose?

- Yes
- No, assets above \$5 million, cannot submit
- No, assets under \$5 million

17.2. Did the Board review and accept the auditor’s annual management letter and audit? If under \$5 million, did the board review and approve an independent CPA’s review?

- Yes
- If no, cannot submit

17.3. Is your audit available to the public (e.g. via the website or the office)? Note: This information could be included in your annual report.

- Yes
- If no, cannot submit



Section 2d: Grantmaking

National Standard 18 – The Board Oversees Diverse Grantmaking

A community foundation operates a broad grants program to multiple grantees that is not limited by mission to a single focus or cause or exclusively to the interests of a particular constituency, and widely disseminates grant guidelines to ensure the fullest possible participation from the community it serves.

18.1. Does the foundation provide guidelines on how to access or apply for each of the foundation’s competitive grant opportunities?

- Yes
- If no, cannot submit

18.2. Provide evidence that the foundation provides lists of past grantees that demonstrate the diversity of your foundation’s grant program.

- URL or Narrative

18.3. Are grant agreements (or award letters with grant guidelines/use for charitable purposes) accompanying all foundation grants?

- Yes
- If no, cannot submit

18.4. Does your foundation require grantees to demonstrate how grant funds were used (via site visits, grant reports, other)?

- Yes
- Yes, but only for our competitive grants process
- If no, provide a narrative on why



National Standard 19 – The Board’s Discretionary Grants Respond to Community Needs

A community foundation awards some grants from its discretionary resources through open, competitive processes that address the changing needs of the community.

19.1. Does the foundation provide public information about how the foundation’s competitive grant opportunities address the changing needs of the community?

- Yes
- If no, cannot submit

19.2. Provide a brief narrative describing how your foundation uses grant evaluation reports to educate the board and to improve your grantmaking process.

Resources for Measuring Impact:

- Measuring Community Foundation Impact:
<https://www.michiganfoundations.org/sites/default/files/resources/CF-Measuring-Community-Foundations-Impact-NSRF-Aspen.pdf>
- Foundation Center’s Tools and Resources for Assessing Social Impact,
<http://trasi.foundationcenter.org/>

National Standard 20 – The Community Foundation Oversees Grantmaking Due Diligence

A community foundation performs due diligence to ensure that grants will be used for charitable purposes and assesses the impact of its grantmaking.

20.1. Provide a process, flowchart, or checklist for determining which grants require exercise of expenditure responsibility. These grants include donor advised funds and fiscal sponsorship arrangements. If this is detailed in your due diligence policy, please attach that as evidence. If it is a separate document, please attach the separate document. The reviewer is looking for a level of specificity that includes all of the necessary steps for expenditure responsibility, specifically:

- a. 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.



- b. Executing a written agreement with the grantee that specifies the charitable purposes of the grant, includes provisions that prohibit use of the funds for lobbying activities, and requires the grantee to return any funds not used for the designated purposes.
 - c. Requiring the grantee to maintain the grant funds in a separate fund so that charitable funds are segregated from non-charitable funds.
 - d. Requiring the grantee to provide regular reports on the use of the funds and the charitable activity supported by the grant.
 - e. Keeping documentation about the grant with a brief description of the grant, amount, charitable purpose, and current status of the grant. (Note the 990PF requires this information; however, the current and revised Form 990 for public charities do not have instructions indicating that such information should be reported on the Form, so the application of this requirement to community foundations with donor advised funds is unclear at this time.)
- Attach Grantmaking Due Diligence process, flowchart, or checklist as described above.

Helpful Hints: Common responses that are not compliant:

- *We only make grants to 501(c)3s* – This language is insufficient for a policy. Both private foundations and supporting foundations are classified as 501(c)3 foundations, and grants to these foundations may require expenditure responsibility.
- *We do not make grants that require expenditure responsibility* – This language is insufficient for a policy. If the foundation does not make expenditure responsibility grants, your policy should state that you only make grants to 501(c)3 public charities classified under sections 509(a)(1) and 509(a)(2) and identify the process used by the foundation to verify a grantee’s status as one of those types.

Determination Letters – Reliance on a foundation’s determination letter is insufficient as it will not necessarily indicate whether a foundation is classified under 509(a)(1) and 509(a)(2). For example, the policy should indicate whether you use GuideStar Charity Check, the IRS Select Check, or the Exempt Foundations BMF tool to verify a potential grantee’s tax status as 509(a)(1) or 509(a)(2).

Due Diligence Resources:

- Expenditure Responsibility Decision Tree:
http://www.cfstandards.org/sites/default/files/resources/COF_ERDecisionTree.pdf



- California Community Foundation Grantmaking Due Diligence:
<https://www.calfund.org/document.doc?id=147>
- Community Foundation of Western Nevada:
<http://nevadafund.org/wp-content/uploads/2013/12/Due-Diligence-policy-March-2012.pdf>
- Streamlining your Due Diligence from Project Streamline Summary:
http://www.projectstreamline.org/newsletter/fall_2012/ideas-field-streamlining-your-due-diligence
- Guide to Due Diligence from Project Streamline:
<http://www.projectstreamline.org/sites/projectstreamline.org/files/Due%20Diligence.pdf>
- Northern California Grantmakers Due Diligence Done Well: A Tool for Grantmakers from GEO:
http://docs.geofunders.org/?filename=GEO_Due-Diligence-Guide.pdf
- Southeastern Council on Foundations Due Diligence Tool from GEO:
http://www.secf.org/assets/site/Grants/due_diligence_tool_for_grant.pdf
- International Grantmaking Due Diligence:
http://www.siliconvalleycf.org/sites/default/files/svcf-international-due-diligence-fact-sheet_051613.pdf



Section 2e: Community and Donor Engagement

National Standard 21 – The Board Oversees Donor Education and Engagement

A community foundation educates and engages donors in identifying and addressing community issues and grantmaking opportunities.

21.1. Please indicate which of the following donor education opportunities your foundation has provided in the last two years:

- Planned Giving Seminar
- Individual gift planning with a third party professional
- Community Foundation Open House
- Community Foundation Information Session
- Site Visits
- Donor Reception
- Community conversation
- Other, please list
- None (cannot submit)

21.2. Submit at least three examples of donor outreach that discuss community issues or needs and opportunities for charitable giving or grants. Samples may include solicitation letters, a convening of donors, the annual report, a video, and screenshots of webpages or other materials.

- Attach examples of donor outreach

National Standard 22 – Foundation Provides Gift Acknowledgement and Fund Statement for Donors

A community foundation promptly and accurately acknowledges gifts and provides fund statements, at least annually, to those donors who wish to receive them.

22.1. Do all donors, including online donors, who make a gift of more than \$250 receive a gift acknowledgement that complies with the IRS guidelines for a gift receipt, including:

- a. Name of the organization.



- b. Amount of the cash contribution.
- c. Description but not the value of non-cash contribution.
- d. Statement that the community foundation did not provide goods or services in whole or in partial consideration for any contributions' to the organization or a good faith estimate of the value of goods and services, if any, that an organization provided in return for the contribution?
- e. For donors to advised funds the specific statement that the foundation has exclusive legal control over the contributed assets.

Note: PayPal does not offer this type of receipt and does not allow editing of their receipts, so additional information is required for a gift receipt from their site and possibly from other online vendors.

- Yes
- If no, cannot submit

22.2. Does your community foundation provide all fund holders who wish to receive them with fund statements at least annually or upon request? A fund statement that is available through an online portal satisfies this requirement.

- Yes
- If no, cannot submit

National Standard 23 – Privacy and Confidentiality

A community foundation keeps all private information obtained with respect to donors and prospects confidential to the fullest extent possible. If a community foundation uses an online giving portal, it must ensure that it protects donor data, honors donor intent, and discloses any transaction fees.

23.1. Do all employees, board members, and committee members receive your privacy/confidentiality policy and sign off that they read and will comply with the policy?

- Yes
- If no, cannot submit

23.2. Is your privacy policy, including donor privacy, posted online or publicly available?

- Yes
- If no, cannot submit



Note: A privacy policy explains how your foundation honors the privacy of those you work with, including visitors to the website and subscribers to electronic newsletters, here is a sample: <http://www.siliconvalleycf.org/content/privacy-policy>

National Standard 24 – The Board Displays Community Leadership

A community foundation identifies and addresses community issues and opportunities. It strives to serve in leadership roles, including convening, and to assess the impact of its community leadership.

24.1. Provide a narrative and specific sections of your annual report, board minutes, indicators reports, or similar information that speak to how your community foundation identifies and responds to community issues. This example could be a grant or another activity that shows how the foundation listens and responds to the community.

- Attach example showing board display of community leadership

Helpful Hints

- a. The reviewers are not looking for one way that all community foundations do this work. They are looking for information that says, yes, the community foundation is aware of its community needs and it focuses resources to address those issues.
- b. Your submission should provide at least one example of your community foundation's community leadership in the last two years.
- c. Non-funding examples include participating in or leading convenings on specific topics that are important to the community, having a process for assessment of grantmaking and how that influences future grant cycles, and recording evidence of how the community foundation serves the breadth and diversity of the community.
- d. Funding examples that address community issues can range from creating an initiative; being the fiscal sponsor of a large project; focusing some discretionary or pooled funds into one project, program, or area that the community deems important (i.e. education, health, environment, emergency preparedness, emergency response, neighborhood planning, etc.); and structuring a grants program to include broad community input or voting on projects.
- e. Examples should be from the last two years.
- f. For assistance with defining and explaining community leadership, here are some resources:



In 2013, CFLeads defines community foundation leadership this way – “The community foundation is a partner that creates a better future for all by pursuing the community’s greatest opportunities and addressing the most critical challenges, inclusively uniting people, institutions and resources from throughout the community, and producing significant, widely shared and lasting results.”

<http://www.cfleads.org/>

<http://www.cof.org/content/community-foundations-centennial>

<http://monitorinstitute.com/communityphilanthropy/>

<http://www.aspeninstitute.org/topics/community-foundations>

<http://www.cfinsights.org/>

<http://democracycollaborative.org/new-anchor-mission>

- g. If your community foundation does not believe it meets this Standard, please speak with the Executive Director of National Standards for clarification or provide a narrative explaining how your community foundation both meets the definition of a community foundation described in National Standard 1 but does not engage in these activities.

National Standard 25 – The Board Oversees Social Media and Communications

A community foundation communicates openly and transparently on a regular basis. If social media is used by employees or in foundation communications, the community foundation develops a social media policy.

25.1. Does your community foundation share foundation news and communications with the broad community regularly? Check all that apply:

- Press Releases
- Annual Report
- Website Updates
- Social Media Updates (Facebook, Twitter, etc.)
- Other, please specify
- If none of the above, cannot submit



National Standard 26 – The Board Oversees Advocacy and Lobbying Activities

When involved in advocacy or lobbying activities, a community foundation ensures it is in compliance with applicable federal and state regulations.

For this section, the reviewer will look for information about how the community foundation's staff and board discuss advocacy or lobbying activities or grantmaking that includes advocacy or lobbying efforts. For guidance, please review Alliance for Justice's Bolder Advocacy Project materials located here:

<http://bolderadvocacy.org/focus-on-foundations/community-foundation-resources>

<http://bolderadvocacy.org/focus-on-foundations/rules-regulations>

http://bolderadvocacy.org/wp-content/uploads/2012/02/Investing_in_Change.pdf

You can check your Form 990, Part IV and Schedule C to make sure you have captured your foundation's lobbying activities. The peer reviewer may cross-check your response with your Form 990.

Remember that responding No Activity and submitting your application is equivalent to the Board and CEO attesting that advocacy and lobbying are not conducted by the community foundation and that the community foundation does not make grants to support lobbying by others.

26.1. If your community foundation engaged in lobbying in the last two years, provide board minutes where the lobbying effort is discussed by the Board.

- If yes, provide attachment
- Not Applicable

26.2. If your community foundation engaged in advocacy in the last two years, provide board minutes where the advocacy effort is discussed by the Board.

- If yes, provide attachment
- Not Applicable

For more information on the distinction between lobbying and advocacy, please visit www.cof.org or www.bolderadvocacy.org. Here is a direct link to information, http://bolderadvocacy.org/wp-content/uploads/2012/06/Advocacy_and_Community_Foundations.pdf

Section 3: Data Collection

These responses will not affect your National Standards accreditation. This is data collection for the purpose of understanding how community foundations operate as a collective so that both the Community Foundation National Standards Board and the Council on Foundations best represent your foundation and the work you do – individually and as a field. These questions may change as we learn more about the field.

1. How many employees does your community foundation have?
 - a. 0
 - b. 1-4
 - c. 5-9
 - d. 10-19
 - e. 20-99
 - f. 100 or more

2. Has your board approved spending from underwater funds in the last two years?
 - a. Yes
 - b. No

3. What is your community foundation's required turnaround time for gift acknowledgements?
 - a. Less than one week
 - b. One to two weeks
 - c. Three to four weeks
 - d. One to two months
 - e. More than two months
 - f. Not applicable, the foundation does not have a policy on timing of gift acknowledgement

4. Has your community foundation been audited by the IRS, including during the community foundation audits of 2009-2012?
 - a. Yes
 - b. No

5. Does your community foundation have a policy regarding donor successors for donor advised funds?



- a. Yes
 - b. No
 - c. Not applicable, we do not hold donor advised funds
6. How many donor advised fund successor generations does your community foundation allow?
- a. None
 - b. 1
 - c. 2
 - d. More than 2
 - e. Not applicable, we do not hold donor advised funds
7. What percentage of your donor advised funds made at least one grant last year?
- a. 100%
 - b. 90%
 - c. 80%
 - d. 70%
 - e. Less than 60%
- 7b. Does your community foundation require at least one grant from donor advised funds periodically?
- a. Yes, every year
 - b. Yes, every two years
 - c. Yes, every five years
 - d. Yes, every ten years
 - e. Other
 - f. Not applicable, we do not hold donor advised funds
8. What percentage of your donor advised funds did not make a grant last year because they are in a growing or planning stage?
- a. 0%
 - b. <10%
 - c. 10%
 - d. 20%
 - e. 30%
 - f. 40%
 - g. More than 50%



- 8b. How many donor advised funds does your community foundation have?
- a. 0
 - b. 1-10
 - c. 11-49
 - d. 50-99
 - e. 100 or more
9. Does your board or staff communicate with each donor advisor about making a grant once a year?
- a. Yes
 - b. No
 - c. Not applicable, we do not hold donor advised funds
- NOTE: This does not include a fund statement unless it includes additional information about how the donor can use their available granting dollars to partner on grantmaking that the community foundation is working on.
10. Are any of your donor advised funds using the money in your investment pool for impact investing?
- a. Yes
 - b. No
 - c. Not applicable, we do not hold donor advised funds
- NOTE: Impact investing describes investments that generate a social and/or environmental return and also a financial return. Impact investing carried out by foundations often is called mission investing.
11. How are you adding value to your community besides traditional grantmaking (choose all that apply)?
- a. Impact investing
 - b. Neighborhood grant programs
 - c. Fiscal sponsorship for large projects
 - d. Public-private partnerships
 - e. Research and report writing
 - f. Advocacy
 - g. Investment Broker/Dealer for nonprofit funds
 - h. Other, please specify



- i. None of the above

12. What types of funds does your community foundation hold? Select all that apply.

- a. Agency Funds
- b. Unrestricted Funds
- c. Pass-through or Quasi-Endowed Donor Advised Funds, Non-endowed Donor Advised Fund, or Temporarily Restricted Donor Advised Funds
- d. Endowed Donor Advised Funds
- e. Committee Advised Funds
- f. Scholarship Funds
- g. Field of Interest Funds
- h. Named Endowed Funds (including Geographic Affiliate Funds)
- i. Designated Funds
- j. Memorial Funds
- k. Individually Managed Funds (donor managed investment account)
- l. Cemetery Funds
- m. Supporting Organizations
- n. Disaster relief
- o. Emergency hardship
- p. Other, please specify

13. Please share one story of how your community foundation makes an impact in your community that National Standards and the Council on Foundations can share as we highlight accredited community foundations.

- a. Narrative
- b. Attachment of picture or video

14. Which of the following fringe benefits are offered?

- Private Club Membership
- Car Allowance
- Cell Phone
- Deferred Compensation or Benefits
- Relocation Costs
- Other, please specify
- None

Gift Acceptance Policy Cover Sheet

Key Elements

1. Types and specifications of funds offered
2. Types and specifications of gifts and asset types accepted
3. Procedures for accepting gifts and establishing funds, including any necessary approvals
4. Provision regarding gifts of illiquid assets
5. Minimum amount to set up a new fund
6. Guidelines to prevent violation of the excess business holding rules for assets held in donor advised funds

Drafting Hints

The list of funds covers those most commonly found at community foundations. If your foundation has other types of funds, such as a fund that makes awards to individuals in recognition of outstanding achievements, you should add those to the list with a brief description.

Similarly, the list of planned giving vehicles covers those most commonly in use. If your foundation offers a pooled income fund, you should add it to the policy, with a brief description.

There should be a board committee with authority to approve the acceptance of gifts. The board may delegate some of this authority to staff, as is commonly done with gifts of cash and publicly-traded securities, but the board should decide whether to delegate additional authority and which gifts require committee approval. Some foundations use a gift acceptance committee for this purpose, while others use their investment committee. If you use a gift acceptance committee, consider also involving the investment committee whenever a gift will not be liquidated promptly.

The sample policy covers the types of gift most often received by most community foundations. You may need to add sections if your foundation frequently receives other kinds of gifts. For example, rural foundations may want to include a discussion of gifts of farms in the section on

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real property. Foundations in oil and gas producing states likely will want to include their policies on accepting interests in these properties.

Read the sample carefully. It is only a sample. Your policies on some kinds of gifts might be more, or less, restrictive and you will want to adapt the sample to reflect your policies.

Sample Gift Acceptance Policy

Purpose

The purpose of these fund and gift acceptance policies is to advance the Foundation's mission of connecting donor interests to community needs and opportunities utilizing community knowledge and leadership. By providing guidelines for negotiating and accepting various types of gifts for different types of funds, these policies are designed to serve the best interests of the Foundation, donors who support the Foundation's programs through charitable gifts, and a healthy and caring community. These policies are established to assure that each gift to the Foundation is structured to provide maximum benefits to the community, the donor, the Foundation and the beneficiaries of the Foundation's charitable programs and activities.

Scope

These policies address both current and deferred gifts, with an emphasis on specific types of deferred gifts and gifts of non-cash property. The goal is to encourage financial support for the Foundation without encumbering it with gifts which either generate more cost than benefit, or which may be restricted in a manner that is not in keeping with the Foundation's charitable purposes or applicable laws governing charitable gifts. These policies also describe the types of funds that the Foundation maintains.

Notwithstanding anything in this policy to the contrary, the Foundation reserves the right to waive any requirements herein with respect to acceptance of specific gifts.

Ethical Standards in Dealing with Donors

Every person acting for or on the Foundation's behalf shall adhere to those standards set forth in *A Donor Bill of Rights*:

http://www.afpnet.org/files/ContentDocuments/Donor_Bill_of_Rights.pdf,

and the *Model Standards of Practice for the Charitable Gift Planner*:

http://www.pppnet.org/ethics/model_standards.html.

The Foundation is committed to the highest ethical standards of philanthropy and development. In all transactions between potential donors and the Foundation, the Foundation will aspire to provide accurate information and full disclosure of the benefits and liabilities that could influence a donor's decision, including with respect to the Foundation's fees, the irrevocability of a gift, prohibitions on donor restrictions, items that are subject to

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variability (such as market value, investment return, and income yield), the Foundation's responsibility to provide periodic financial statements with regard to donor funds, and investment policies and other information needed by donors to make an informed choice about using the Foundation as a vehicle of charitable gifts. **In addition, all donors will be strongly encouraged to discuss their gifts with their own financial and tax advisors before signing any gift agreement.** The role of the Foundation's staff is to inform, guide, and assist the donor in fulfilling his or her philanthropic goals, without pressure or undue influence.

The Foundation recognizes the paramount role of donors and their gifts to the Foundation in executing its charitable mission. In carrying out the Foundation's development program, staff will recognize and acknowledge donors in appropriate ways, both publicly and privately, subject to the Foundation's Policy on Confidentiality. Donors reserve the freedom to determine the degree and type of recognition that they prefer and the Foundation respects the confidentiality of donors who do not wish to be publicly recognized.

Funds

The Foundation offers several different types of funds. These include:

Unrestricted Funds. Gifts to these funds help the Foundation help our community. The Foundation makes distributions to support effective work of charitable organizations throughout the area we serve.

Field of Interest Funds. These funds support a charitable purpose designated by the fund's donor or donors. Distributions are determined by the Foundation consistent with the fund's purposes. Where appropriate, the Foundation may create an advisory committee to make recommendations for distributions.

Designated Funds. These funds support a charitable organization designated by the fund's donor or donors. Distributions generally are determined by applying the Foundation's spending policy to the assets held in the fund.

Agency Endowments. These funds are created by charitable organizations that designate themselves as the fund's beneficiary. Distributions generally are determined by applying the Foundation's spending policy to the assets held in the fund.

Scholarship Funds. These funds provide financial assistance to students at schools, colleges, and universities. Scholarship funds can also support vocational training and assistance in paying for special courses. Donors recommend eligibility criteria and may serve on selection committees.

Donor Advised Funds. Donors recommend grants to charitable organizations.

Disaster Relief and Emergency Hardship Funds. Contributions to these funds help people in time of need and help our community recover when disasters strike. The Foundation makes distributions from these funds to support effective organizations that provide assistance to individuals and community organizations.

Variance Power

Sometimes a fund just doesn't work anymore. Scientists discover a cure for polio. A charitable organization goes out of existence. The Foundation has the ability to address these situations through its variance power. This power gives the Foundation's board the ability to make changes to a fund when its purpose is no longer necessary, can no longer be fulfilled, or has become inconsistent with the charitable needs of the community. This power to update funds helps protect donors by avoiding the need for complex and costly legal proceedings.

Authority to Accept Gifts

Acceptance by Officers & Designated Employees. Any of the Foundation's officers or employees designated by the Foundation's [NAME] Committee may accept, for and on the Foundation's behalf, any of the following:

- Cash
- Checks
- Marketable securities

Acceptance by [NAME] Committee. All other gifts, including those listed below, will require review and, if appropriate, approval by the Foundation's [NAME] Committee. The following gifts require the Committee's review and approval:

- Closely-held and S corporation stock
- Partnership interests
- Limited liability company interests
- Accounts receivable (e.g., gifts of loans, notes, mortgages)
- Real property
- Gifts of intellectual property, mineral reserves, precious metals
- Artwork, coin collections, jewelry, etc.
- Life insurance and annuity policies

Emergency Gifts. Notwithstanding the [NAME] Committee's authority above, gifts requiring immediate action (such as gifts in late December) may be exempted from full Committee review if, in the President's judgment, in consultation with the Chair and Vice-Chair of the [NAME] Committee, that gift may be accepted without in any way jeopardizing the Foundation's exempt status.

Timing of Review. Gifts requiring Committee review will be handled promptly. Foundation staff will immediately notify donors if a gift is not accepted.

Authority to negotiate and sign gift agreements

Subject to the [NAME] Committee's review and approval authority, the Foundation's President, will have the authority to handle inquiries, negotiate with donors, assemble documentation, retain expert and technical consultants, and execute agreements on the Foundation's behalf.

Purpose of gifts

The purpose of each gift to the Foundation must fall within the Foundation's broad charitable purposes. The Foundation cannot accept any gift that will be directly or indirectly subject to any material restriction or condition by the donor that prevents the Foundation from freely and effectively employing the gift assets or the income from such assets to further its charitable purposes. In addition, the Foundation reserves the right to reject any gift that might place the other assets of the Foundation at risk or that is not readily convertible into assets that fall within the Foundation's investment guidelines. The Foundation may also decline a gift if it is not able to administer the terms of the gift in accordance with the donor's wishes.

Minimum gifts

Subject to the policies set forth in this document, the Foundation may accept gifts to existing funds of any size. The minimum gift for a new unrestricted or donor advised fund is \$_____.

Include if this reflects your policies

A new fund may be established with a lower minimum if the donor arranges regular payments to bring the fund to the minimum level within a reasonable time frame. No grants may be made from any fund until the minimum is reached.

Exceptions are subject to the approval of the Foundation's President or [NAME].

Investment of gifts

The Foundation reserves the right to make any or all investment decisions regarding gifts to it in accordance with its Investment Policy, as amended from time to time. In making a gift to the Foundation, the donor gives up all rights, title and interest to the assets contributed. In particular, the donor relinquishes the right to choose investments and investment managers, brokers, or to veto investment choices for the contributed assets.

Consider this sentence if your policies permit

However, when the size of a fund warrants separate investment consideration, and when otherwise permitted by law, the Foundation will endeavor to accommodate requests from donors for separate investment of fund assets, or use a particular investment manager, broker or agent in accordance with the Foundation's Investment Policy, and may consult with donors on investment options for such fund.

Costs of accepting and administering gifts

Generally, costs associated with the acceptance of a gift, such as the donor's attorneys' fees, accounting fees, and appraisal and escrow fees, are borne by the donor. The direct costs of administering gifts are generally paid out of the assets of the individual funds. Custodial, investment, and administrative fees are paid from the respective funds in accordance with the Foundation's guidelines and fee schedules. The Foundation reserves the right to assess a set-up fee.

Fundraising by donors

Because the Foundation is legally responsible for all fundraising undertaken on its behalf, fundraising undertaken by donors in connection with funds of the Foundation must be approved in advance by the Foundation pursuant to the Foundation's policy on fundraising by donors. All such fundraising activities are also subject the Foundation's supervision.

Excess business holdings

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor, advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business;
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity;
- Any interest in a sole proprietorship.

These limitations do not apply if the donor advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. To prevent a violation of these rules, it is the Foundation's policy is to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund.

Types of gift assets

Generally, gifted assets will be either 1) "liquid" assets such as cash or marketable securities, or 2) "illiquid" assets defined as everything that is not cash or marketable securities. With respect to non-cash assets, it is the Foundation's general policy to liquidate all gifts promptly. On occasion, the [NAME] Committee may decide that it will not liquidate certain gifts immediately. Factors the Committee will consider include:

- Market conditions – a gift may be retained for a reasonable period of time if the likely sales price would be substantially less than the asset's real value. Similarly, a large block of stock might be sold over a period of time in order not to artificially depress the price.
- Use by the foundation – the Foundation may elect to keep gifts that it will employ directly in furtherance of its exempt purposes. For example, the Foundation might keep real property that it will use as its offices.
- Desirability as an investment – on rare occasions, the Foundation may be given property that it wishes to retain as an investment. Considerations in this decision include the projected return and how the asset fits into the Foundation's investment portfolio.

If a fund's illiquid assets do not generate a sufficient return to permit grantmaking that is consistent with the assets' value, the Foundation will seek an additional gift of cash or marketable securities to allow the fund to begin making distributions.

Subject to Board approval, the Foundation may accept the following types of gifts:

Liquid assets

Cash

The Foundation accepts gifts of cash

- In currency of the United States;
- By checks made payable to the Foundation or the component fund; or
- By credit cards or wire transfer to the Foundation's account(s).

Publicly-Traded Securities.

General. The Foundation accepts gifts of marketable, publicly-traded stocks and bonds. As a general rule, publicly-traded stocks and bonds contributed to the Foundation will be redeemed or sold as soon as practicable. All proceeds from such redemption or sale less commissions and expenses are then credited to the component fund to which the stocks or bonds were originally contributed. The Foundation may accept gifts of publicly-traded stocks and bonds in any amount to any existing fund. However, gifts to establish a new component fund at the Foundation must meet the applicable minimum funding requirement.

Appraisal. No appraisal is required so long as the stock or bond is not subject to any restrictions, including those imposed by contract or the Securities Exchange Commission. Where appraisal is not required, the value of the gift is determined by calculating the mean of the high and low prices of the securities on the date of the gift.

Illiquid assets

Real Estate.

General. This policy applies to all gifts of real property, including outright gifts of residential and commercial property and farmland; bargain-sale transactions; and gifts of remainder interests in which the donor retains a life estate. The Foundation does not accept gifts of time shares.

Gifts of real property must be reviewed by the [NAME] Committee. Subject to the Committee's approval, the Foundation may accept gifts of real property to any fund. Gifts to establish a new component fund at the Foundation must meet the applicable minimum funding requirement. In deciding whether to accept real property gifts the Foundation will:

- Determine whether the real estate gift is an acceptable minimum value.
- Confirm that the donor has legal capacity and is entitled to convey the property through copies of deed, title report, etc., provided by donor.
- Determine whether, if property is encumbered by debt, the debt is of a level that will not unduly burden the Foundation or adversely affect the marketability of the property.
- Perform a market and financial analysis prior to acceptance of the gift to determine whether the gift is a financially sound acquisition.
- Weigh its ability to manage commercial property for the time necessary to sell the property. For example, income producing property may subject the Community Foundation to unrelated business income tax and/or other types of expenses, including but not limited to, upkeep of land, maintenance of buildings and management of property.
- Evaluate whether any restrictions on the gift desired by donor will jeopardize the classification of such gift as charitable.

Appraisal. Each gift of real property giving rise to a charitable deduction of more than \$5,000 must be appraised in accordance with federal tax law. The donor will be responsible for obtaining such appraisal.

Distributions. Distributions from a component fund that consists entirely of real property are limited to the net income generated by the property less fees assessed by the Foundation and any unrelated business tax imposed thereon.

Liquidation. The Foundation will generally seek to sell real property as soon as possible and generally will not accept gifts that cannot be liquidated within three years.

Procedures for Accepting Gifts of Real Property. Donors will provide the information and documents requested in the Real Property Donation Checklist and the Real Property Inquiry Form at the earliest possible time prior to the acceptance of the gift. Copies of those forms are appended to this policy. The Foundation may request additional information or documents when necessary to its evaluation of the proposed gift.

Whenever possible, a member of the Foundation staff or an authorized representative will visit the property to determine its nature and type and to identify any potential problems not evident from information supplied by the donor that might hinder or prevent the foundation's sale of the property.

Environmental Assessment. If the property type warrants, Donors will provide at least a Phase I Environmental Report with disclosure of any environmental problems or statement that none exists.¹

Closely-Held Stock and S Corporation Stock.

General. Gifts of closely-held and S corporation stock must be reviewed by the [NAME] Committee. Subject to the Committee's approval, the Foundation may accept gifts of closely-held or S corporation stock in any amount to any existing fund. Gifts to establish a new component fund at the Foundation must meet the applicable minimum funding requirement. The Foundation may accept gifts of stock in closely-held or S corporation that generate unrelated business income only if certain agreements are reached with the donor and/or the corporation. These include an agreement by the donor that the taxes on the unrelated business income and the Foundation's associated administrative expenses (e.g., accounting and tax return preparation) will be charged against the fund holding the contributed stock. Further, the donor should agree to contribute additional cash to the fund to pay the foregoing taxes and administrative expenses to the extent there is insufficient cash in the subject fund balance to cover such taxes and expenses.

¹ Not every property will warrant an environmental assessment, however the Foundation reserves the right to require such assessment at Donor's expense.

Appraisal. Each gift of closely-held or S corporation stock giving rise to a charitable deduction of more than \$5,000 must be appraised in accordance with federal tax law. The donor will be responsible for obtaining such appraisal.

Distributions. Distributions from a component fund that consists entirely of closely-held or S corporation stock are limited to the income generated by the securities less fees assessed by the Foundation and any unrelated business tax imposed thereon.

Liquidation. The Foundation will generally seek to redeem or sell closely-held or S corporation stock contributed as soon as possible and generally will not accept gifts that cannot be liquidated within three years.

Procedures for Accepting Gifts of Closely-Held or S Corporation Stock. The following procedures apply to all proposed gifts of S corporation stock:

- The Foundation will review corporate governing documents to determine the rights and obligations associated with the stock and whether or not the Foundation should undertake such obligations in light of such rights.
- The Foundation will review the corporation's most recent tax returns and the donor's most recent K-1 to determine the nature of the income associated with the stock (e.g., unrelated business income, active versus passive business).
- All proposed transfer documents must conform to the Foundation's form or be approved by the Foundation's counsel.
- As a condition for the Foundation's acceptance of the gift, a written agreement between the donor and the Foundation should be in place that provides for the payment of administrative expenses and unrelated business income taxes generated by the stock to the extent there is insufficient cash in the fund to which the stock has been donated to cover such expenses and taxes. The agreement should also require the donor to indemnify the Foundation against all liabilities incurred by the donor on account of the stock up to the date of the gift.
- The donor shall provide the Foundation with all documents which outline, discuss or relate to the duties and liabilities which shareholders have, including Shareholder Agreements.

General Partnership Interests.

The Foundation generally does not accept gifts of general partnership interests due to the unlimited liability of general partners.

Limited Partnership Interests.

General. Gifts of limited partnership interests must be reviewed by the [NAME] Committee. Subject to the Committee's approval, the Foundation may accept gifts of limited partnership interests in any amount to any existing fund. Gifts to establish a new component fund at the Foundation must meet the applicable minimum funding requirement. The Foundation reserves the right to carefully screen all proposed gifts of limited partnership interests to ensure that they place no undue risk upon the Foundation.

The Foundation generally does not accept gifts of interests in partnerships that carry on active business. Interests in passive, investment-type limited partnerships such as those holding real estate, stocks and bonds, are preferred.

The Foundation may accept gifts of limited partnership interests that generate unrelated business income only if certain agreements are reached with the donor. These include an agreement by the donor that the taxes on the unrelated business income and the Foundation's associated administrative expenses (*e.g.*, accounting and tax return preparation) will be charged against the fund holding the partnership interest. Further, the donor would have to agree to contribute additional cash to the fund to pay the foregoing taxes and administrative expenses to the extent there is insufficient cash in the subject fund balance to cover such taxes and expenses.

Appraisal. Each gift of limited partnership interest must be appraised in accordance with federal tax law. The donor will be responsible for obtaining such appraisal.

Distributions. Distributions from a component fund that consists entirely of limited partnership interests are limited to the income distributed to the Foundation by the partnership less fees assessed by the Foundation and any unrelated business income taxes imposed thereon.

Liquidation. The Foundation will generally seek to redeem or sell limited partnership interests contributed to it within three years.

Procedures for Accepting Limited Partnership Interests. The following procedures apply to all proposed gifts of limited partnership interests:

- The Foundation will review the partnership governing documents to determine the rights and obligations associated with the limited partnership interest and whether or not the Foundation should undertake such obligations in light of such rights. If required, the donor should be asked to obtain the other partners' consent to the gift as a condition to the Foundation's accepting the gift.
- The Foundation will review the donor's most recent K-1 and the partnership's tax returns to determine the nature of the income associated with the limited

partnership interest (e.g., unrelated business income, active versus passive business).

- All proposed transfer documents must conform to the Foundation's form or be approved by the Foundation's counsel.
- As a condition for the Foundation's acceptance of the gift, a written agreement between the donor and the Foundation income should be in place that provides for the payment of administrative expenses and unrelated business taxes generated by the interest to the extent there is insufficient cash in the fund to which the interest has been donated to cover such expenses and taxes. The agreement should also require the donor to indemnify the Foundation against all liabilities incurred by the donor on account of the limited partnership interest up to the date of the gift.

Limited Liability Company Interests

The same considerations given to gifts of limited partnership interests apply to gifts of interests in limited liability companies.

Tangible Personal Property.

General. The Foundation accepts gifts of personal tangible property (e.g., artwork, coin collections, jewelry) only if: (i) the Foundation determines that the property will be used in furtherance of the Foundation's exempt purposes or (ii) the Foundation will be able to sell the property. If the property is to be sold, the Foundation will accept the gift only if it has sufficient value to justify the expenditure or resources required for such sale. The Foundation may accept gifts of personal tangible property in any amount to any existing fund. Gifts of tangible personal property to establish a new component fund at the Foundation must meet the applicable minimum funding requirement.

Appraisal. Each gift of personal tangible property for which the donor expects a charitable deduction exceeding \$5,000 must be appraised in accordance with federal tax law. The donor will be responsible for obtaining and paying for such appraisal.

Procedures for Accepting Personal Tangible Property. The following procedures apply to all proposed gifts of personal tangible property:

- The Foundation will review all prior appraisals and authentication documents, if any, relating to the property.
- If the property is to be sold, the Foundation will ascertain the market for such property and estimate the costs to be incurred in connection with the sale as well as the costs of holding the property prior to sale.
- All costs incurred by the Foundation in connection with the holding and sale of the property shall be charged against the sale proceeds, with the balance being credited to the fund to which the property has been contributed.

Life Insurance

General. The Foundation may accept gifts of life insurance policies so long as: (a) the policy is not encumbered (i.e., there is no outstanding loan against the policy); and (b) the Foundation is made the policy's owner and primary beneficiary. When premium payments can no longer be made because there is insufficient value in the policy to keep it in force, or because the Foundation chooses to discontinue premium payments, the policy will be surrendered. The Foundation may accept gifts of life insurance policy in any amount to any existing fund. Gifts of life insurance policy to establish a new component fund at the Foundation must meet the applicable minimum funding requirement.

Appraisal. Each gift of life insurance policy giving rise to a charitable deduction of more than \$5,000 must be appraised in accordance with federal tax law.

ADDITIONAL CONSIDERATIONS FOR ACCEPTANCE OF ILLIQUID ASSETS

In connection with the acceptance of many types of illiquid assets, the Foundation may incur costs such as unrelated business income tax, fees or commissions associated with the sale or liquidation of assets, asset management and holding costs, consultant fees or other expenses outside the normal scope of the Foundation's administrative costs. Accordingly, as a condition of the Foundation's acceptance of the gift, the Foundation may require a pledge or other written agreement between the donor and the Foundation that provides for the payment of all or a portion of any such costs or expenses, including unrelated business income taxes, to the extent there is insufficient cash in the donor's fund to which the asset(s) have been donated to cover such costs.

DEFERRED GIFTS & PLANNED GIVING.

These are gifts whose benefit does not fully accrue to the Foundation until some future time, or whose benefits are split with non-charitable beneficiaries. Foundation representatives are authorized to solicit direct charitable gifts through wills, as well as contributions to establish gift annuities or charitable trusts. The Foundation will work closely with donors and confer with financial advisors, at the request of the donors, to realize these gifts. In cases where the gifts are complex, the President/CEO may request review by the [NAME] Committee.

Bequests

The Foundation accepts bequests from donors who have directed in their wills that certain assets be transferred to the Foundation and honors the wishes of the donor as expressed, but reserves the right of refusal as necessary and appropriate. Sample bequest language for restricted and unrestricted gifts is available from the Foundation, to donors and/or advisors, upon request. The Foundation may not be named as Executor for a donor in his/her will and will not serve if named. The Foundation may create a named fund in memory of the donor, if there is no stipulation for anonymity.

Retirement Plans or IRA Accounts

Donors may make lifetime gifts of retirement assets or name the Foundation as the beneficiary of their plan. Retirement plans include, but are not limited to, Individual Retirement Accounts (IRA), 401(k), 403(b), and defined contribution plans.

Life Income Gifts

The Foundation will work closely with donors to implement planned giving options that provide income to a donor or his/her designees, as well as financial benefit to the Foundation (split-interest gifts). Options include:

CHARITABLE REMAINDER TRUSTS (CRT). This trust makes payments to one or more beneficiaries for their lifetimes, or for a fixed term, or a combination of both. Assets are put into a trust, beneficiaries are paid, and when the trust term ends, the remainder in the trust passes to the Foundation for its charitable purposes. The donor names a Trustee to manage the trust and determines whether the payout will be fixed (a charitable remainder annuity trust (CRAT)) or variable (a charitable remainder unitrust (CRUT)). Trusts can be set up during the donor's lifetime or by will. The Foundation encourages donors to consult their own legal counsel and tax advisors to create a charitable remainder trust. At the donor's request, the Foundation will confer with his/her advisors to assist in establishing the trust from which it will ultimately benefit. The Foundation will not serve as Trustee of the trust.

Change the preceding sentence if your Foundation is willing to serve as trustee.

CHARITABLE LEAD TRUST (CLT). This trust first makes distributions to the Foundation for a specified period, with the remainder reverting to the donor or another beneficiary at the end of the period. It may be set up during one's lifetime or in a will. The Foundation will work closely with the donor and/or his advisor to create the trust, but will not serve as Trustee.

CHARITABLE GIFT ANNUITY (CGA). This planned gift is based on a gift of cash or securities in exchange for lifetime income, either immediate or deferred, to the donor. It is a contract between the donor and the Foundation and is backed by our total assets. The gift is in part a charitable gift and in part the purchase of an annuity.

LIFE ESTATE. A donor may wish to contribute a personal residence or farm to the Foundation and retain the right to use the property until death. Upon the donor's death, the Foundation owns the entire interest in the property.

Real Property Donation Checklist

1. Exact legal name of donor and federal identification number.
2. Description of property (copy of deed).
3. Description of any buildings or other structures located on the land.
4. Boundary survey of property with location of all structures, easements, and encumbrances appearing on the face of the survey.
5. Information regarding existing zoning status.
6. Information on all ingress/egress for the property.
7. Description of prior use of the property.
8. Description of use of surrounding property, with specific disclosure of any storage tanks or potential environmental factors affecting the property.
9. Disclosure of any contemplated or anticipated condemnations, right-of-ways or other actions by municipalities that may affect the subject property.
10. Phase I environmental report on the property, including environmental report on any structures located on the real estate.
11. Evidence of title, such as title examination and report, title insurance commitment, or schedule describing any liens, encumbrances, or title matters affecting the property.
12. Copy of appraisal showing the fair market value of the property current within sixty days.
13. Disclosure of amount of existing real estate taxes, insurance premiums, and assessments attributable to the property.
14. Discussion with proposed donor regarding any special arrangements for donor's fund or other sources to address ongoing expenses for taxes, insurance, assessments, maintenance, grass cutting, security, utilities, and similar items.

Real Property Inquiry Form

I. General Information

Owner(s) _____ Phone _____

Address _____

Property Location _____

Land area (acres or square feet) _____

Building area (sq. ft. each floor) _____

Zoning _____

Replacement cost of building _____

Current property insurance coverage _____

Date of acquisition/form of acquisition _____

Current cost basis (includes improvements) _____

Principal balance of mortgage _____ Current fair market value _____

Assessed value for real estate taxes _____

Real estate taxes _____

Land value _____ Building value _____

Most recent appraisal (date) _____ Appraised value _____

Appraiser _____

Occupancy status after transfer of title to charity _____

Unimproved (no buildings) _____

Unoccupied (building, but not occupant) _____

Occupied (building with occupants) _____

Please indicate by checking "yes" your awareness of any condition or problem which may affect the title or marketability of the property. Use Section VII to provide additional information.

II.	Title/Zoning	Yes	No
	A. Title	_____	_____
	B. Zoning variances, violations or special permits	_____	_____
	C. Zoning violations	_____	_____
	D. Restrictions or easements	_____	_____
	E. Survey available	_____	_____
 III.	 Condition of Building	 Yes	 No
	A. Foundations/slab	_____	_____
	B. Basement water/dampness/sump pump	_____	_____
	C. Roof leaks	_____	_____
	D. General structural	_____	_____
	E. UFFI (formaldehyde insulation)	_____	_____
	F. Asbestos	_____	_____
	G. Lead paints	_____	_____
	H. Termites/ants/pests	_____	_____
	I. Swimming pool	_____	_____
	J. Radon	_____	_____
	K. Building systems	_____	_____
	1. Plumbing	_____	_____

- 2. Electrical _____
- 3. Heating _____
- 4. Air conditioning _____
- 5. Hot water _____
- 6. Water supply _____
- 7. Sewage; type _____
- 8. Other fixtures _____

IV. Rental/Condominium/Cooperative

- A. Building systems _____
 - 1. Leases _____
 - 2. Rental arrears _____
 - 3. Last month's rent/security deposit _____
- B. Common area fees in arrears _____
- C. Building or sanitary code violations _____
- D. Operating/capital budget _____

V. Environmental

- A. History of property
 - 1. Property has prior or current use for industrial, commercial, agricultural, manufacturing, waste disposal or any other non-residential purposes **Yes** _____ **No** _____
- B. Condition of property

- 1. Stressed or denuded vegetation or unusual barren areas _____
 - 2. Discoloration, oil sheens, or foul/unusual odors in water _____
 - 3. Storage drums _____
 - 4. Above or underground storage tanks; vent or filler pipes _____
 - 5. Evidence of oil or other chemicals in soil _____
 - 6. Evidence of PCBs _____
 - 7. Evidence of toxic air emissions _____
 - C. Adjacent properties
 - 1. Properties adjacent or close to subject have conditions requiring "yes" answer to any questions in (A) and (B) above _____
 - D. Flood plain/wetlands/drainage _____
 - E. Endangered plants or wildlife _____
- Are you aware of any other information concerning any part of the land or buildings which might affect the decision of a buyer or affect value of property or affect use by buyer? _____

VI. Property Expense Budget

To hold this property as a Foundation asset, the following income and expenses are anticipated:

- A. Income **Annual**

- 1. Rent _____
- 2. Other _____

B. Expenses _____

1. Real estate taxes:

First payment due _____ (date) _____

Second payment due _____ (date) _____

2. Utilities:

Gas _____

Oil _____

Electric _____

Water/sewer _____

Other _____

3. Services:

Caretaker/property manager _____

Landscaping _____

Heating/cooling service contract _____

Snow removal _____

Pool services _____

Common area charge (condominium) _____

Security _____

Other	_____
4. Maintenance/Repairs	_____
5. Insurance	_____
Total Expenses	
Net Income (Loss)	

VII. Additional Information on Sections II through VII

VIII. Acknowledgments

Owner(s) hereby acknowledge that the information set forth above is true and accurate to the best of my (our) knowledge

_____ Date _____

Owner

_____ Date _____

Owner

Donor Advised Fund Agreement Cover Sheet

Key Elements

- Irrevocable gift
- Names of advisors and successor advisors (if permitted)
- Notice to donor that fund administration will follow foundation policies
- Endowed or not endowed
- Fund name
- Donor limited to recommendations for grants (and investments, if permitted)

Drafting Considerations

This is a basic agreement. There is additional information you will need from your donor(s), such as contact information for them and for fund advisors. You could include space for this in the agreement, or you can use a separate document. It is generally desirable to keep the agreement as simple as possible, leaving many of the terms and conditions under which the fund operates to a donor handbook or donor guidelines.

The sample includes an optional clause for use when the foundation allows donors to recommend among investment pools that the foundation maintains.

If specified in the original agreement, a donor advised fund can convert to a field-of-interest or designated fund at a specified future date, such as the conclusion of the advisory period. However, it is often preferable to handle this outside the agreement, with the donor making a final recommendation that the fund be used to benefit X organization or Y cause. Treating this as advice allows donors to change their minds as often as they want (or as often as your policies permit). If the donor insists on including a clause to this effect in the agreement, you can do so, but in that case, you must be careful to include the variance power in the agreement.

The sample agreement allows the donor to name successor advisors, but does not allow those appointed to name their successors.

The sample agreement provides that assets in the fund at the conclusion of the advisory period will be distributed at the discretion of the community foundation. If you allow funds to

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continue as named funds, you may want to vary that paragraph to make this clear and to reference the need for the fund to meet a minimum asset test if that is the case. It's generally advisable not to state the dollar minimum in the agreement as this may change over time.

Donor Advised Fund Policies

What is a Donor Advised Fund?

A donor advised fund defined under the Internal Revenue Code possesses three characteristics:

- The Fund is separately identified with reference to the contributions of a donor or donors. For example the Smith Family Fund established by the Smith family children.
- The Fund is owned and controlled by a sponsoring organization such as the Foundation.
- The donor or persons appointed by the donor expect to have the privilege of providing advice with respect to the fund's investments or distributions.

Minimum Fund Size

Describe you foundation's policies with respect to the minimum amount required to establish a fund and any on-going minimum to keep the fund active. Note that these policies and amounts are subject to change at any time.

Contributing to a Fund

Gifts to a fund are irrevocable. The assets of donor advised funds are owned and controlled by the Foundation. As long as the Fund meets the minimum balance requirements, contributions to a fund may be made in any amount and at any time. Contributions may be made using cash, publicly traded securities or other property, including closely held stock, partnership interests, real estate, personal property, trusts and life insurance. Contributions are subject to acceptance by the Foundation. Contributions should be clearly designated by fund name: "The XYZ Fund of [Foundation Name]."

Many donors make contributions using appreciated, publicly traded stock that has been held for longer than a year, to enjoy maximum tax benefits. Contributions of property that may not have immediate liquidity are accepted at the discretion of the Foundation, and subject to completion of our due diligence procedures. Donors considering a gift in any form other than

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cash should contact the Foundation to discuss its appropriateness and to obtain delivery instructions.

Variance Power

Some donor advised fund agreements restrict distributions to a specific charitable purpose, such as education or the environment. Others may limit distributions to particular named organizations. These restrictions may apply from the inception of the fund or may come into effect at the conclusion of the advisory period. Any such restrictions are subject to modification by the Foundation if it determines, in its sole discretion, that the restriction or condition is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

Fund Advisors

The initial advisors to the fund are those persons named in the fund agreement.

Insert a paragraph that describes your foundation's successor advisor policy, including how many generations are permitted and the process for naming successors

If at any time there is more than one advisor to the fund, the advisors will appoint a designee and all communications to and from the Foundation will be through the designee. If no designee has been appointed, the Foundation will consider the first advisor named in the agreement to be the designee.

Modify the preceding paragraph as needed to reflect your foundation's practices.

Recommending a Grant

Grants must be for charitable purposes. The minimum grant amount is **[insert dollar amount]**.

You may recommend grants to any organization described in section 501(c)(3) of the Internal Revenue Code except that the Foundation does not make grants to private foundations. You may also recommend grants to most units of government (e.g., public schools, colleges and universities, town and municipal governments, police departments, etc.).

You will need to modify one or both of the next two paragraphs if your foundation allows, or is willing to consider, grants from DAFs to non-charities or international grants. If you allow, describe your process, including the need to exercise expenditure responsibility.

The Foundation does not make grants from donor advised funds, even for charitable purposes, to other types of nonprofit organizations (non-charities) or to businesses. Examples of organizations to which the Foundation will not grant include social welfare organizations (501(c)(4)); veterans' organizations; cemeteries; Chambers of Commerce and similar business associations; fraternities and sororities; social clubs; and fraternal organizations such as Elks and Moose.

The Foundation makes grants to US organizations that carry on their work in other countries. However, the Foundation does not make grants from donor advised funds to non-US organizations or governmental entities.

This would be a good place to describe the Foundation's process for accepting grant recommendations. You might also include the normal amount of time needed to process a request.

From time to time the Foundation may bring to the advisor's attention grant making opportunities in which the advisor may have an interest. The advisor is not obligated to recommend a grant for the identified program. Donors shall be furnished with lists of the unmet charitable needs of the community as determined by the Foundation from time to time.

The above is a nice practice, but delete the paragraph if your foundation does not do this.

Grant Restrictions

The Internal Revenue Code prohibits grants to individuals from donor advised funds. Also prohibited are grants for political contributions or to support political campaigns. Grants may not result in benefits, goods, or services to the donor, the fund advisor, members of their families, and businesses they control. Failure to observe this restriction can subject the fund advisor to tax penalties. Benefits include the payment of pledges, event tickets, meals, sponsorships, registration fees, discounted merchandise, preferred parking and/or seating, and memberships unless the membership confers nothing of value. Please contact the Foundation

if you have specific questions about whether a grant you are considering recommending will result in a prohibited benefit.

Payments from a Donor Advised Fund

Expense reimbursements, loans, compensation, and other similar payments are not permitted from a donor advised fund to a donor, fund advisor, or related party.

Grant Acknowledgment

Unless other arrangements have been made (e.g. anonymity requested), the grant letter will indicate that the contribution is from “The XYZ Fund of **[NAME Community Foundation]**” and that it has been given upon the recommendation of the named advisor. The recipient organization is encouraged to acknowledge the gift to the advisor and also to the Foundation. Additional language confirms that no benefits have been offered or provided to the Foundation or the advisor in exchange for the accompanying grant. If the recipient organization publishes a news release or a list of donors, it is asked to indicate the contribution as a grant from “The XYZ Fund of **[NAME Community Foundation]**.”

Fundraising

Donors sometimes want to raise money to add to their advised funds. The Foundation’s policies on fundraising are attached to this document. Fundraising, if permitted, must strictly adhere to the guidelines in the policy and to any additional restrictions imposed as a condition of the Foundation’s consent.

Investments

The Foundation has the sole responsibility and authority for investment of the assets of each Donor Advised Fund. Decisions with respect to the retention, investment, or reinvestment of assets and with respect to commingling of assets shall be made by the Foundation’s Investment Committee [Board of Directors]. Donor Advised Funds are customarily invested and commingled with assets of other funds of the Foundation.

**Optional Paragraph for Foundations Offering
Donors a Choice of Investment Pools**

The Foundation maintains investment pools with varying risk and return objectives. These pools are described below. All investment options are reviewed and approved by the Foundation's Investment Committee [Board] and may change from time to time as the Committee [Board] determines. You may make recommendations to the Foundation for investment of your fund in one or more of these pools. All recommendations must be in writing.

Insert description of your investment pools

When the size of a fund [note if this privilege is limited to endowed funds] warrants separate investment consideration, typically for funds over _____ dollars, the Foundation will endeavor to accommodate requests from donors for separate investment of fund assets, or use of a particular investment manager, broker or agent in accordance with the Foundation's Investment Policy.

The Foundation's long-term investment objective is to preserve the real value of its permanent funds. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation. The Foundation will normally measure whether it has achieved that objective over a rolling five-year period.

The Foundation appoints an investment consultant and investment managers from time to time to carry out some of its investment management responsibilities with respect to its invested asset pool.

Fees and Minimums

The Foundation assesses fees, including investment management fees, against all its funds to cover the cost of administration and to continue the Foundation's important work in our community. Fees provide the necessary resources to operate efficiently and effectively, ensuring fiscal responsibility in grant due diligence, donor and nonprofit education, research, and other activities. The Foundation's current administrative fee schedule for donor advised funds is:

Insert your fee schedule here

Investment management fees vary depending on the investment manager. [or describe how you assess investment fees].

Inactive Funds

A fund is deemed inactive if:

- The fund advisor dies or resigns or evidence of his or her incapacity is provided to the Foundation, and if no successor advisor has been named.
- All named successor advisors are unable or unwilling to serve as such.
- No recommendations are made with respect to grants from the fund for a period of two years and, during such period, the advisor or successor advisor does not reply to the Foundation's attempts to contact them.

If the fund becomes inactive, the Foundation will deem the advisory period to have ended and will initiate distributions from the fund in accordance with the provisions of the fund agreement.

Termination

Unless otherwise specified in the fund agreement, upon the death, resignation or incapacity of the last advisor to the fund, or if the fund is determined to be inactive, the assets of the fund will become a part of the Foundation's unrestricted permanent endowment. If the principal balance of the fund exceeds \$_____, the Fund will continue to be maintained as a separate named endowed fund for discretionary purposes or as a field of interest, if the donor(s) or successor-advisor(s) have specified in writing one or more broad fields of interests for the fund.

Substitute a paragraph describing your practice if it differs from that described above.

Sample Donor Advised Fund Agreement

I. Contribution

I/we _____ (the "Donor(s)") hereby irrevocably give _____ [describe assets] to _____ (the "Foundation"), a charitable organization described in sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code. The Donor(s) understand that this is an irrevocable gift, which will be used to establish and maintain a charitable fund of the Foundation, subject to the Foundation's governing documents and bylaws. This charitable fund (the "Donor Advised Fund" or "DAF") will be known as the _____ FUND and will be identified as such in the course of its administration and distribution, unless the Donor(s) request otherwise. The Foundation may also receive additional contributions of cash and/or marketable securities from the Donor(s) or other individuals or businesses as well as distributions of cash and/or marketable securities from trusts, wills, private foundations or other donor advised funds to either initially fund or add to this Donor Advised Fund.

II. Administration

The Donor Advised Fund will be effective upon the acceptance of this agreement by the Foundation. The DAF will be administered in accordance with the normal and customary policies for donor advised funds of the Foundation (available upon request).

III. Advisors

The following individuals may serve as Advisors to the Donor Advised Fund. If there are no Advisors identified, the Donor will serve as the Advisor to the DAF.

- i. _____
- ii. _____
- iii. _____

Upon the death, incapacity, or other disqualification of the last of the Advisors named above, the following individual(s) may serve as successor Advisor(s) to the DAF.

- iv. _____
- v. _____
- vi. _____

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If at any time there is more than one Advisor to the Donor Advised Fund, the Advisors will appoint a designee and all communications to and from the Foundation will be through the designee. If there is no designee appointed, the designee will be the first Advisor listed above, and, if no Advisor is listed, the First Donor listed below will be the designee.

At such time as the Donor Advised Fund ceases to have any Advisors, it will be used for general charitable purposes at the discretion of the Foundation's Board without consideration of advice or recommendation from an Advisor.

IV. Distributions

The Foundation welcomes recommendations from Advisors about distributions from the income and principal of the Donor Advised Fund.

- a. All recommendations are advisory in nature. The Foundation will independently determine whether recommendations it receives are consistent with the Foundation's charitable purposes. The Foundation may accept or reject recommendations. The Foundation is not required to wait for recommendations before making distributions from the Donor Advised Fund.

ALTERNATE

IV. Distributions – Endowed Fund

The donors intend to create a fund that is permanently endowed. Each year the Foundation will determine the amount allowed for distributions by applying its spending policy for endowed funds to assets in the fund. The Foundation welcomes recommendations from Advisors about distributions from the spendable portion of the Donor Advised Fund.

- a. All recommendations are advisory in nature. The Foundation will independently determine whether recommendations it receives are consistent with the Foundation's charitable purposes. The Foundation may accept or reject recommendations. The Foundation is not required to wait for recommendations before making distributions from the Donor Advised Fund.

- b. The Foundation cannot make distributions to fulfill any pledge, obligation, or membership, or to support any activity from which a Donor, Advisor or related party will receive a benefit.

V. Fees

The Foundation will assess administrative and investment management fees against the Donor Advised Fund in accordance with the Foundation's published fee schedule, as amended from time to time. The Foundation may also assess the fund to cover any unusual expenses incurred

in connection with the contributed assets, including the cost of disposing of them, and in the administration of the Fund.

VI. Investments

The assets of the Fund shall be invested according to the Foundation's investment policy, as it may be amended from time to time by the Foundation's Investment Committee [with the approval of the Board].

**Optional Paragraph for Foundations Offering
Donors a Choice of Investment Pools**

The Foundation maintains investment pools with varying risk and return objectives. These pools are described [below] [in an attachment to this agreement] [in your donor handbook]. All investment options are reviewed and approved by the Foundation's Investment Committee [Board] and may change from time to time as the Committee [Board] determines. You may make recommendations to the Foundation for investment of your Fund in one or more of these pools. All recommendations must be in writing.

VII. Anonymity/Publicity

To recognize and honor our donors, the Foundation's policy is to include our donors' names in publicity about the Foundation unless they wish to remain anonymous. Please check the box below that best describes your wish regarding publicity:

- I have no objection to the inclusion of my name in Foundation publicity
- I do not wish to have my name included in Foundation publicity and I wish to be listed as an anonymous donor
- Other _____

By: _____
First Donor

Second Donor

ACCEPTED:

_____ COMMUNITY FOUNDATION

By: _____

Date: _____

Due Diligence Policy Cover Sheet

Key Elements

1. Description of the process for ensuring that the grant will be used for charitable purposes consistent with the nature of the grant and the nature of the fund from which the grant is made (Information submitted should address grants from all fund types).
2. A process for determining which grants from funds legally defined as donor advised funds require the exercise of expenditure responsibility.
3. A policy or procedure for exercising expenditure responsibility when required for grants from funds legally defined as donor advised.

Drafting Hints

The sample policy's draft process for grants from donor advised funds is the bare minimum. If your foundation does additional due diligence, as by reviewing financials or requesting additional information, be sure to include that in your policy.

The sample policy cites GuideStar's Charity Check as one way to verify public charity status. If you use a different third-party to run these checks, just substitute as needed.

The sample is only a sample. Your processes generally may be different.

Council on Foundation Resources

Grants to Government, <http://www.cof.org/content/grants-to-government>.

Faith-based Grantmaking: A Basic Guide for the Perplexed, <http://www.cof.org/content/faith-based-grantmaking-basic-guide-perplexed>,

Community Foundations and Grants to Non-Charities, <http://www.cof.org/content/community-foundations-and-grants-non-charities>.

Other Resources

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The Department of the Interior's Bureau of Indian Affairs 2014 list of federally-recognized Tribal Governments is at <http://www.bia.gov/cs/groups/public/documents/text/idc006989.pdf>.

Sample Due Diligence Policy for Grantmaking

Grants from Unrestricted and Field of Interest Funds

1. Foundation staff reviews all grant proposals
2. Areas reviewed include:
 - a. Is the application complete, including attachments?
 - b. Is it signed by authorized parties?
 - c. Is the request clear?
 - d. Does it meet the eligibility requirements for the fund or program?
 - e. If from a field of interest fund, does the grant comply with donor intent?
3. Charitable status and charitable purpose:
 - a. Grants may be made to public charities; that is organizations described in section 501(c)(3) and 509(a)(1), (a)(2), or (a)(3); and to private operating foundations. The Foundation will not normally make grants to private non-operating foundations.
 - b. Grants may also be made to units of government for public purposes. This includes Native American tribal governments.
 - c. In exceptional circumstances, grants may be made to other types of nonprofit organization and to businesses. Using expenditure responsibility as a guideline, the Foundation will carefully supervise any such grants to document the use of its funds solely for charitable purposes.
4. Verification of public charity status. The Foundation will use one or more of the following methods to verify a potential grantee's charitable status
 - a. Internal Revenue Service, Exempt Organizations Select Check, <http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check>.
 - b. Internal Revenue Service Business Master File
 - c. Grantee's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling
 - d. GuideStar's Charity Check
 - e. Verification of church status for houses of worship and affiliated schools not found on the above lists
5. Verification of units of government.

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- a. In most cases, the Foundation will maintain a copy or screen shot of the home page for a political subdivision (city, county, town, school district, etc.).
 - b. For Native American tribal governments, the Foundation will consult the list maintained by the Department of the Interior's Bureau of Indian Affairs. The 2014 list is at <http://www.bia.gov/cs/groups/public/documents/text/idc006989.pdf>.
 - c. Staff will analyze, with assistance of counsel, if necessary, situations in which governmental status is not clear.
6. Contact the potential grantee. This may be by telephone, site visit, meeting or e-mail.
 7. Depending on the size of the grant, conduct a site visit. Staff may also:
 - a. Interview key staff identified in the grant proposal
 - b. Interview collaborative partners
 - c. Interview other funding sources
 8. Determine the project's overall potential impact on the community
 9. Review program outcomes and objectives
 10. Review financials and audit
 11. Review organization's Form 990, where applicable, especially for business practices
 12. Review proposed project budget.

Designated Funds

Before establishing a designated fund, the Foundation verifies that the proposed designee is a public charity or unit of government. Grants generally are paid once each year.

Agency Endowment Funds

Before establishing an agency endowment fund, the Foundation verifies that the organization seeking to establish the fund is a public charity. If a unit of government, such as a public library, asks to establish an agency endowment fund, the Foundation will consult with counsel to determine whether this is permissible under the law of [STATE]. Agency grants are paid out to the relevant organization named in the fund, generally once each year.

Grants from Donor Advised Funds

1. The Foundation will not make the following types of grant 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 expense reimbursements, to donors, advisors, and related parties.
 - c. Any grant for a purpose that is not charitable.
 - d. Any grant to a private non-operating foundation.

2. The Foundation will make grants from donor advised funds to most public charities and units of government.
 - a. The Foundation will follow the verification process outlined in steps 4 and 5 above to verify public charity status.
 - b. In addition, the Foundation will follow the Process for Determining Supporting Organization Status outlined in the next section to determine whether a potential public charity grantee is a Type III supporting organization that is not functionally integrated or supports an organization controlled by the donor, fund advisor, or related persons. If either of these conditions is present, the Foundation will either refuse the grant or exercise expenditure responsibility.
3. 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.
4. If the Foundation elects to make an expenditure responsibility grant, it will follow the following process:
 - a. The Foundation will conduct a pre-grant inquiry to determine whether the proposed grantee is reasonably likely to use the grant for the specified purposes and that those purposes are charitable.
 - b. The Foundation and grantee will sign a written grant agreement that includes all provisions required by Treasury Regulations.
 - c. The grantee will be required to maintain the grant funds in a separate account on the grantee's books.
 - d. The grantee will be required to submit a written report summarizing the project promptly following the end of the period during which it used all grant funds and to submit any interim reports the Foundation may require

Process for Determining Supporting Organization Status

Supporting organizations receive public charity status from the IRS due to their particular relationship with another publicly supported charity or government unit. Based on that relationship, a supporting organization is defined as Type I, Type II, or Type III. Type III supporting organizations are further defined as functionally or non-functionally integrated. The Foundation must exercise expenditure responsibility if it makes grants from a donor advised fund to any type of supporting organization that supports a public charity which is controlled directly or indirectly by the donor, donor advisor, or a related person. Expenditure responsibility is also required for grants to any non-functionally integrated Type III supporting organization.

The Foundation will take the following steps to determine whether a grant recommendation from a Donor Advised Fund requires expenditure responsibility because the grantee is a supporting organization:

1. Verify that the organization is a public charity by checking its status in IRS Publication 78, the organization's IRS determination letter, or IRS Business Master File.
2. 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. A report from a third party that includes:
 - i. the grantee's name, EIN, and public charity classification under §509(a)(1), (2), or (3);
 - ii. a statement that the information is from the most currently available IRS monthly update to the BMF, along with the IRS BMF revision date;
 - iii. the date and time of the grantmaker's search. The grantmaker must retain this report in electronic or hard-copy form.
3. Determine the type of Supporting Organization from one of the following sources:
 - a. For Type I or Type II supporting organizations a written representation signed by an officer, director, or trustee of the grantee if both of the following are true:
 - i. 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 organization.
 - ii. The grantmaker collects and reviews copies of the grantee's governing documents. If the grantee's governing documents are not sufficient to establish the relationship, the grantmaker must also collect organizing documents from the supported organization.
 - b. To determine whether a Type III supporting organization is functionally integrated the Foundation will do the following:
 - i. Obtain the grantee's written representation identifying the organization it supports.
 - ii. Collect and review the grantee's organizing documents (and those of the supported organization if necessary).
 - iii. Collect a written representation signed by an officer, director, or trustee of each supported organization stating that substantially all of its activities directly further the exempt purposes of the supported and, but for the involvement of the supporting organization, its activities are ones that normally would be engaged in by the supported organization.

- c. Alternatively, 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 supporting organization.
4. Once the Foundation has determined that a potential grantee is a supporting organization and is not a Type III non-functionally integrated supporting organization (for which expenditure responsibility is automatically required), the Foundation, will determine whether the donor, donor advisor, or related parties control the supported organization.
- a. Control will be found to exist if any donor, donor advisor, or related persons may, by aggregating their votes or positions of authority, require a supported organization to make expenditure, or prevent a supported organization from making expenditure.
 - b. The Foundation will request certification from either the donor or advisor or directly from the supported organization that the donor, advisor, or related parties do not control the supported organization.

Approved: _____

Board Secretary

Sample Board Resolution Approving Scholarship Policies and Procedures

WHEREAS, The XYZ Community Foundation (the “Community Foundation”) has funds that were established for the purpose of providing scholarships and other charitable awards to individuals; and

WHEREAS, federal legislation enacted in August 2006 amends certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”), prohibiting donor advised funds, as defined in Code Section 4966 (“Section 4966 Donor Advised Funds”), from making grants to individuals; and

WHEREAS, Code Section 4966(d)(2)(B)(ii) excepts certain scholarship and award funds from the definition of Section 4966 Donor Advised Funds, provided such grants are made in accordance with certain protocols (“Section 4966 Scholarship Funds”); and

WHEREAS, these protocols require, inter alia, that all grants to individuals be “awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance by the board of directors of the sponsoring organization, and such procedure is designed to ensure that all such grants meet the requirements of paragraphs (1), (2), or (3) of section 4945(g)”;

BE IT HEREBY RESOLVED, that all grants made to individuals from Section 4966 Scholarship Funds of the Community Foundation shall be made only for the purposes set forth in Code Section 4945(g)(1), (2) or (3), or as otherwise authorized by law; and

FURTHER RESOLVED, that all grants to individuals from Section 4966 Scholarship Funds of the Community Foundation will be made on an objective and nondiscriminatory basis from a pool of persons chosen on the basis of criteria reasonably related to the purposes of the particular fund from which the grant is made (for this purpose, limitations based on sex, religion, or race are permitted where not contrary to public policy); and

FURTHER RESOLVED, that no employee of the Community Foundation, nor any member of a selection committee recommending grants to individuals, may derive, directly or indirectly, a private benefit in connection with a grant from a Section 4966 Scholarship Fund; and

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FURTHER RESOLVED, that the Community Foundation hereby adopts the attached "Policies and Procedures of the XYZ Community Foundation for Awarding Scholarship, Fellowships and Other Grants to Individuals" (the "Procedures"), which are made a part hereof, in order to insure that grants to individuals from Section 4966 Scholarship Funds meet the requirements of Code Section 4945(g)(1), (2), and (3) and Code Section 4966; and

FURTHER RESOLVED, that the officers of the Community Foundation be, and each of them hereby is, authorized and empowered to appoint, or cause to be appointed, selection committees to enable Section 4966 Scholarship Funds to qualify for the exception to the definition of a donor advised fund under Code Section 4966 and to make non-material changes to the Procedures; and

FURTHER RESOLVED, that the officers of the Community Foundation be, and each of them hereby is, authorized and empowered to approve or cause to be approved grants hereunder, and each such officer is authorized and empowered to take such other and further action as he or she shall deem necessary or desirable in order to carry out the foregoing.

Sample Scholarship Policies and Procedures

Introduction: Scope and Intent of the Policy

The [NAME] Community Foundation ("the Foundation") holds and administers funds (the "Funds") that provide scholarship and fellowship grants to individuals, including high school, college and graduate school students. These grants enable the recipients to complete an undergraduate or graduate education in the field of their choice at the college or graduate school of their choice. The Foundation may also hold and administer certain Funds that make grants to students in primary and secondary school to attend various educational programs and to other individuals for vocational or other training. Grants made from such Funds are referred to as "Scholarship Grants."

The Foundation may also hold and administer Funds that make grants to individuals in recognition of achievement in the fields of art, literature, education, science, public or community service, or for other charitable or civic achievement. These awards are not, and may not be, intended to finance any specific activities of the recipients and may not impose conditions on the manner in which the prizes or awards may be expended by the recipient. Grants made from such funds are referred to as "Individual Achievement Grants."

Finally, the Foundation may hold and administer certain funds that make grants to individuals to achieve a specific objective, produce a report or other similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee that relates to the Foundation's mission. Eligible individuals may include graduate students, scholars, professionals, and other individuals with specialized skills or knowledge. Scholarships also may be awarded to pay for a course of study leading to a certificate or to achieve a skill level, such as art or vocational school. Such scholarships may cover the cost of tuition and related expenses. All grants described in this paragraph are referred to as "Awards and Prizes to Achieve a Specific Objective."

Except where it is necessary to distinguish among the three types of educational assistance, this policy uses the collective term "grants" to refer to all three.

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The Foundation has established the following procedures pursuant to which grants will be awarded from funds where donor/advisors have any advisory privileges or participation in the selection of grant or award recipients. The following procedures shall be interpreted so as to ensure the Foundation's compliance with all applicable requirements of the Internal Revenue Code, including Section 4966, accompanying Treasury Regulations and guidance from the Internal Revenue Service, and these procedures may be amended from time to time.

The Foundation values and encourages the interest and involvement of donors to all three types of fund. Donor involvement may include developing criteria for awards, serving on grant selection committees and recommending others for places on selection committees. Because donor advised funds are not permitted to make grants to individuals, it is important that all persons involved in the process of selecting individuals for grants covered by this policy adhere carefully to the procedures and policies incorporated in this document.

Definitions

Advisor – A person appointed by a donor to have advisory privileges with respect to a Fund. The term also includes members of the advisor's family and businesses controlled by the advisor and family members.

Donor – an individual or organization, including a corporation, partnership or trust, that makes a contribution to a Fund where such Fund is separately identified by reference to contributions of the donor and with respect to which the donor (or any person appointed or designated by such donor) has, or reasonably expects to have, advisory privileges with respect to the distribution or investment of amounts held in such Fund by reason of the donor/advisor's status as a donor. The term also includes members of the donor's family and businesses controlled by the donor and family members.

Educational Institution – An institution that has a regular faculty, a curriculum, and an organized body of students in attendance at the place where the educational activities are held.

Qualified Expenses – Certain expenses incurred in attending an educational institution. They are:

- Tuition and fees for enrollment and attendance.
- Course-related expenses – fees, books, supplies, and equipment required of all students for courses of instruction.
- Room and board, travel, research, clerical assistance. Payments for expenses in this group are not exempt from income tax.

Related Persons – The term includes both a donor or advisor’s family members and businesses they control:

Family Members – An individual’s parents, grandparents, great grandparents, spouse, siblings, children, grandchildren, great grandchildren and the spouses of all of the above.

Controlled Businesses – Corporations, partnerships, and trusts or estates if the donor or advisor and family members own more than 35 percent of the total combined voting power (corporations), 35 percent of the profits interest (partnerships), or 35 percent of the beneficial interest (trusts or estates).

Selection of Grantees

Grantees are to be selected on an objective and nondiscriminatory basis. The group from which grant recipients are selected must be sufficiently broad so that giving grants to one or more members of the group fulfills a charitable purpose; however, selection from such a group is not necessary if one or more grant recipients are selected on the basis of their exceptional qualifications to carry out the purposes of the grant or it is otherwise evident that the selection is particularly calculated to effectuate the charitable purpose of the grant rather than to benefit particular persons or a particular class of persons. For example, selection of a qualified research scientist to work on a particular project does not violate the requirements of this paragraph if the scientist is selected from a group of three scientists who are experts in that field.

Scholarship Grants

Foundation staff and designated members of selection committees established for such awards shall contact high school, college and graduate school administrators as well as managers of other relevant community institutions to advertise the availability of the Foundation’s Scholarship Grants and to request that these administrators nominate potential candidates or encourage potential awardees to submit applications for scholarship aid.

Individual Achievement Awards

Foundation staff and designated members of selection committees established for such awards shall contact relevant community institutions and individuals to publicize the availability of the Foundation’s Individual Achievement Awards and to solicit nominations for such awards. Candidates for such awards may take no part in the selection process.

Awards and Prizes to Achieve a Specific Objective

Foundation staff shall develop application or nomination procedures that are appropriate to accomplish the purposes of the Fund under which any such award is established.

Selection Criteria

The criteria to be used in selecting grant recipients from a fund established at the Foundation must be based on criteria that are appropriate to accomplishing the underlying purpose of the grant as described in the agreement creating such Fund. Foundation staff should work with donors to establish Funds that fulfill the donor's charitable goals and feature clear selection criteria.

Scholarship Grants

Criteria for scholarship grants may include, but are not limited to, the following:

- Prior academic performance;
- Performance of each applicant on tests designed to measure ability and aptitude for educational work;
- Recommendations from instructors of such applicant and any others who have knowledge of the applicant's capabilities;
- Additional biographical information regarding an applicant's career, academic and other relevant experiences, financial need; and
- The grant selection committee's conclusions as to the applicant's motivation, character, ability, or potential.

Criteria may also include the applicant's place of residence, past or future attendance at a particular school, past or proposed course of study or evidence of his or her artistic, scientific or other special talent. Preference may be given to applicants of a particular sex, race (other than white), ethnic background or religion so long as such preference does not violate public policy.

Recipients of Scholarship Grants must be (1) primary or secondary school students; (2) undergraduate or graduate students at a college or university who are pursuing studies or conducting research to meet the requirements for an academic or professional degree; or (3) students – whether full-time or part-time – who receive a scholarship for study at an educational institution that provides an educational program acceptable for full credit toward a bachelor's or higher degree, or offers a training program to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such a program and is accredited by a national recognized accreditation agency.

Scholarship Grants must be used for qualified educational expenses (see definition) at an educational institution (see definition). The Foundation reserves the right to impose additional, minor reasonable restrictions and/or requirements upon the awarding of Scholarship Grants and the administration of such grants. Any substantial or material changes will be made only with approval of the Foundation's Board of Directors.

Individual Achievement Awards

Criteria for Individual Achievement Awards include but are not limited to: the individual's past achievements and community involvements, other biographical information regarding an applicant's career, academic and other relevant experiences. The Foundation reserves the right to impose additional, minor reasonable restrictions and/or requirements upon the awarding of Individual Achievement Awards and the administration of such grants. Any substantial or material changes will be made only with approval of the Foundation's Board of Directors.

Awards and Prizes to Achieve a Specific Objective

In addition to scholarships, the Foundation may make grants to individuals to achieve a specific objective, produce a report or other similar product or improve or enhance a literary, artistic, musical, scientific, teaching or other similar capacity, skill or talent of the grantee that relates to the Foundation's mission. Recipients may include graduate students, scholars, professionals or other individuals with specialized skills or knowledge.

Criteria must be related to the purpose of the Fund under which the award is established and may include prior experience, contributions to the field, demonstrated academic achievement, financial need, character, ability, motivation and potential. If the award is to pay for a course of study leading to a certificate or a higher skill level, criteria shall be related to the purpose of the Fund under which the award is established and may include financial need, character, ability, motivation, potential and the relevance of the candidate's course of study and career objectives to the charitable purposes of the Fund.

Grant Selection Committees

The Foundation shall appoint all members of any selection committee charged with the evaluation of candidates for grants covered by this policy. Appointments shall be made by designated staff of the Foundation

Alternatives: (1) Appointments shall be made by a committee duly appointed by the Board of Directors (2) Appointments shall be made by the Board of Directors.
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A Fund's donors may not control the selection committee. This means that no combination of donors, persons appointed or designated by donors, and persons (a term that includes partnerships, corporations and trusts as well as individuals) related to them may constitute a majority of the committee, be given a veto power, be allowed to chair the committee or otherwise be permitted to control the committee's decisions. If a donor/advisor recommends a person for appointment to a selection committee based on objective criteria related to the expertise of such person, such person will not be deemed to be appointed or designated by the donor/advisor.

Donor/advisors and related persons may provide advice with respect to the selection of grant or award recipients solely as members of a selection committee. This means that donors may not pre-screen applications and choose those to be referred to the committee. It also means that donors may not make a final selection from among candidates approved by the committee.

Every member of the selection committee must adhere to the relevant policies of the Foundation as they may be adopted and amended from time to time, including without limitation the Foundation's conflict of interest and confidentiality policy. Each member of any selection committee covered by this policy must disclose any personal knowledge of and relationship with any potential grantee under consideration and refrain from participation in the award process in a circumstance where he or she would derive, directly or indirectly, a private benefit if any potential grantee or grantees are selected over others.

Grants covered by this policy may not be awarded to any member of the Foundation's Board of Directors, any substantial contributor to the Foundation, any employee of the Foundation, or any other disqualified person with respect to the Foundation. Grants also may not be awarded to any donor/advisor or substantial contributor to the Fund making the award, to any member of a selection committee for such award, or to any members of their families. Finally grants covered by this policy may not be made for a purpose that is not charitable.

Consider whether you want the committee to have term limits and, if so, what those limits should be. Also consider whether you want a formal process for nominations when vacancies arise.

Each selection committee established under this policy shall forward its recommendations to the Foundation staff in such form and on such schedule as the staff shall establish. The Foundation Board shall approve each award made under this policy.

Alternative: The Foundation Board may authorize Foundation staff to approve any or all of the grants made under this policy.

Application and Nomination Process

Applicants for Scholarship Grants and Awards and Prizes to Achieve a Specific Objective shall be required to submit such application forms and supporting materials as the Foundation may deem appropriate on a schedule to be determined by the Foundation. Individuals and organizations wishing to nominate persons for Individual Achievement Awards shall also be required to submit such nomination forms and supporting materials as the Foundation may deem appropriate on a schedule to be determined by the Foundation.

Grant Renewals

Grants will ordinarily be awarded for a one-year period, but may be for a shorter or longer period. Except for Achievement Awards, grants may be renewable for a period appropriate to the purposes of the Fund under which the grant is established. Otherwise, the Foundation may consider renewing a grant on a case-by-case basis according to the status of the grantee's project and the purposes of the grant.

Supervision of Grants

Scholarship Grants Paid Directly to the Educational Institution

Unless otherwise provided in the fund agreement, the Foundation will pay Scholarship Grants directly to the educational institution for the use of the scholarship recipient. The educational institution must agree in writing to use the grant funds to defray the scholarship recipient's expenses or to pay the funds (or a portion thereof) to the recipient only if the recipient is enrolled at such educational institution and his or her standing at such educational institution is consistent with the purposes and conditions of the grant.

Unless otherwise provided in the fund agreement establishing a Scholarship Grant, a condition of each Scholarship Grant is that it will be used only for qualified educational expenses. An additional condition is that no part of the Scholarship Grant shall be used as payment for teaching, research, or other services by the scholarship recipient required as a condition for receiving the scholarship.

Scholarship Grants Paid Directly to the Recipient

If for any reason, a Scholarship Grant is paid directly to the recipient or anyone other than the educational institution, or if the Scholarship Grant is used for expenses other than qualified educational expenses, the Foundation must receive a report on the progress of each recipient

of such a Scholarship Grant at least once each year. This report must include a summary of the use of the funds awarded, and the grantee's courses taken (if any) and grades received (if any) in each academic period. This report must be verified by the educational institution. A final report is also required.

Individual Achievement Grants and Awards and Prizes to Achieve a Specific Objective

Individual Achievement Grants cannot require a particular use of the funds, so no report is required from the recipient.

Recipients of Awards and Prizes to Achieve a Specific Objective or, if appropriate, the organization supervising the grantee's work, will be required to provide a written report to the Foundation about their activities and use of funds at the end of the grant period. If the grant is for a term of longer than one year, periodic written reports will be required at least annually. Any funds not expended for the purpose of the award must be returned to the Foundation for use in furtherance of its mission and the charitable purposes of the particular Fund under which such award was made.

Investigation of Jeopardized Grants

The Foundation is not required to investigate the use of scholarship grants paid directly to an educational institution unless the award is used to pay for something that is not a qualified educational expense. However, the Foundation does have a duty to investigate possible diversions of scholarship grants paid directly to the recipient and all grants to individuals to achieve a specific objective.

Where the reports submitted or other information (including the failure to submit reports), indicate that such a grant is not being used for its intended purpose, the Foundation is under a duty to investigate. While conducting its investigation, the Foundation will withhold further payments to the extent possible until any delinquent reports required under these procedures have been submitted. The Foundation also will take reasonable and appropriate steps to recover the grant funds and/or ensure restoration of the diverted funds to the purposes of the grant.

However, if the grantee has not previously diverted grant funds, the Foundation may elect to continue further payments to the grantee if it receives the grantee's assurance that future diversions will not occur, that the grantee has restored the missing funds and that the grantee will take extraordinary precautions prescribed by the foundation to prevent future diversions from occurring. If a further diversion takes place, the Foundation will take steps to recover the grant.

The phrase "all reasonable and appropriate steps," includes legal action where appropriate, but may not include legal action if such action would in all probability not result in the satisfaction of execution on a judgment.

Recordkeeping Requirements

The Foundation shall retain the following records in connection with all grants covered by this policy:

- All information obtained by the Foundation to evaluate the qualifications of potential grantees,
- The identification of grantees (including any relationship of any grantee to the Foundation or to a director or officer of the Foundation),
- The purpose and amount of each grant, and any additional information the Foundation obtains in complying with its grants administration procedures.

Information pertaining to unsuccessful applicants for awards shall be kept along with information on successful applicants. Records pertaining to any grant made pursuant to this policy shall be kept for no less than three years after the filing of the Foundation's annual tax return for the period in which the last installment of such grant was paid.

These Policies and Procedures for Scholarship Funds were approved by the foundation's board of directors on:

Date

Board Secretary



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National Standard 20: The Community Foundation Oversees Grantmaking Due Diligence

A community foundation performs due diligence to ensure that grants will be used for charitable purposes and assesses the impact of its grantmaking.

Key Elements

20.1 Provide a process, flowchart, or checklist for determining which grants require exercise of expenditure responsibility. These grants include donor advised funds and fiscal sponsorship arrangements. If this is detailed in your due diligence policy, please attach that as evidence. If it is a separate document, please attach the separate document. The reviewer is looking for a level of specificity that includes all of the necessary steps for expenditure responsibility, specifically:

- a. 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
- b. Executing a written agreement with the grantee that specifies the charitable purposes of the grant, includes provisions that prohibit use of the funds for lobbying activities, and requires the grantee to return any funds not used for the designated purposes
- c. Requiring the grantee to maintain the grant funds in a separate fund so that charitable funds are segregated from non-charitable funds
- d. Requiring the grantee to provide regular reports on the use of the funds and the charitable activity supported by the grant
- e. Keeping documentation about the grant with a brief description of the grant, amount, charitable purpose, and current status of the grant (Note the 990PF requires this information, however, the current and revised Form 990 for public charities do not have instructions indicating that such information should be reported on the Form, so the application of this requirement to community foundations with donor advised funds is unclear at this time)

Helpful Hints: Common responses that are not compliant:

- *We only make grants to 501(c)3s* - This language is insufficient for a policy. Both private foundations and supporting foundations are classified as 501(c)3 foundations, and grants to these foundations may require expenditure responsibility.
- *We do not make grants that require expenditure responsibility* - This language is insufficient for a policy. If the foundation does not make expenditure responsibility grants, your policy should state that you only make grants to 501(c)3 public charities classified under sections 509(a)(1) and 509(a)(2) and identify the process used by the foundation to verify a grantee's status as one of those types.
- *Determination Letters* - Reliance on a foundation's determination letter is insufficient as it will not necessarily indicate whether a foundation is classified under 509(a)(1) and 509(a)(2). For example, the policy should indicate whether you use GuideStar Charity Check, the IRS Select Check, or the Exempt Foundations BMF tool to verify a potential grantee's tax status as 509(a)(1) or 509(a)(2).

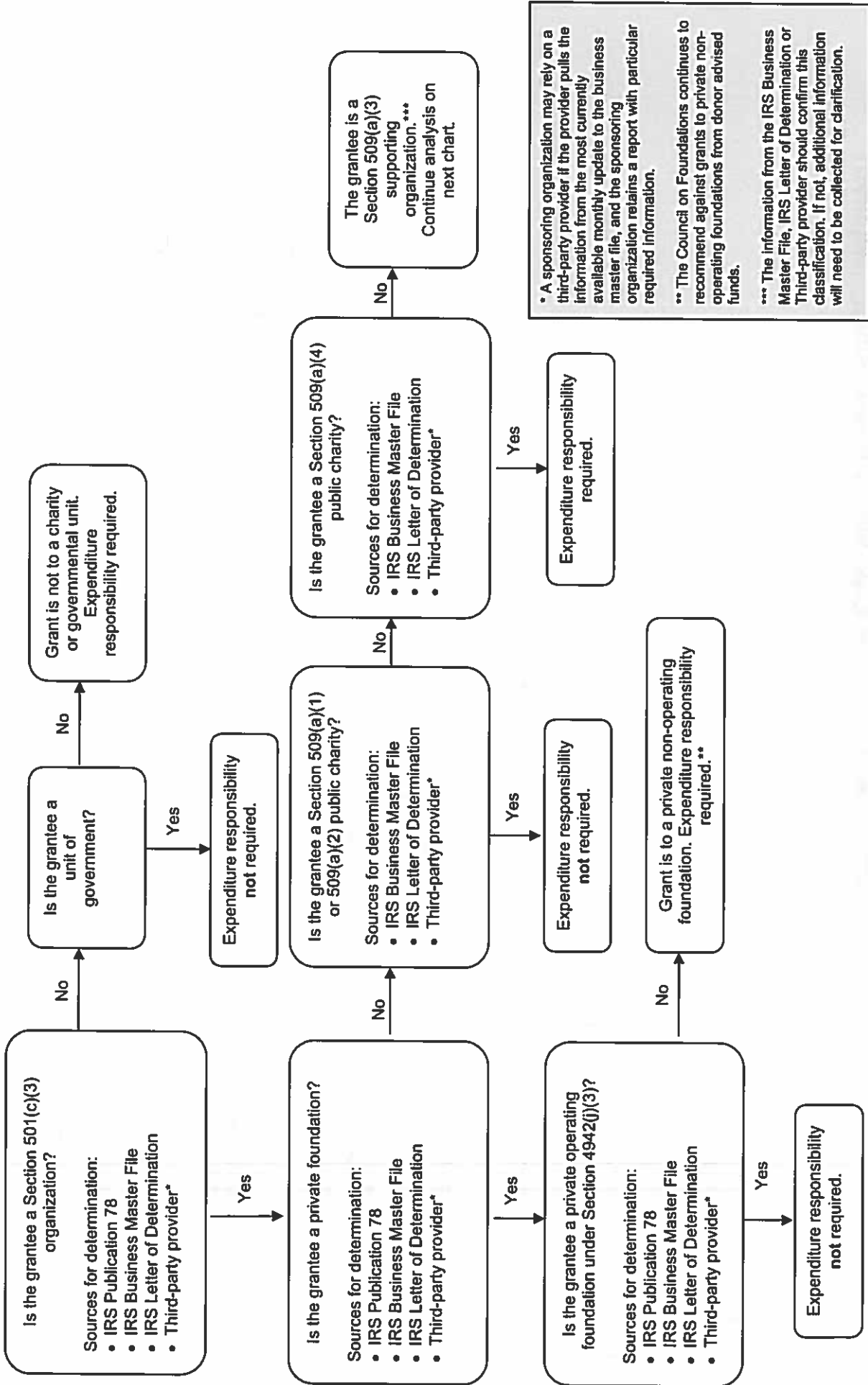
Due Diligence Resources:

- Expenditure Responsibility Decision Tree: http://www.cfstandards.org/sites/default/files/resources/COF_ERDecisionTree.pdf
(http://www.cfstandards.org/sites/default/files/resources/COF_ERDecisionTree.pdf)

- California Community Foundation Grantmaking Due Diligence: <https://www.calfund.org/document.doc?id=147>
(<https://www.calfund.org/document.doc?id=147>)
- Community Foundation of Western Nevada: <http://nevadafund.org/wp-content/uploads/2013/12/Due-Diligence-policy-March-2012.pdf> (<http://nevadafund.org/wp-content/uploads/2013/12/Due-Diligence-policy-March-2012.pdf>)
- Northern California Grantmakers Due Diligence Done Well: A Tool for Grantmakers from GEO: http://docs.geofunders.org/?filename=GEO_Due-Diligence-Guide.pdf (http://docs.geofunders.org/?filename=GEO_Due-Diligence-Guide.pdf)
- Southeastern Council on Foundations Due Diligence Tool from GEO:
http://www.secf.org/assets/site/Grants/due_diligence_tool_for_grant.pdf
(http://www.secf.org/assets/site/Grants/due_diligence_tool_for_grant.pdf)



Grants to Organizations from Donor Advised Funds: Is Expenditure Responsibility Required?



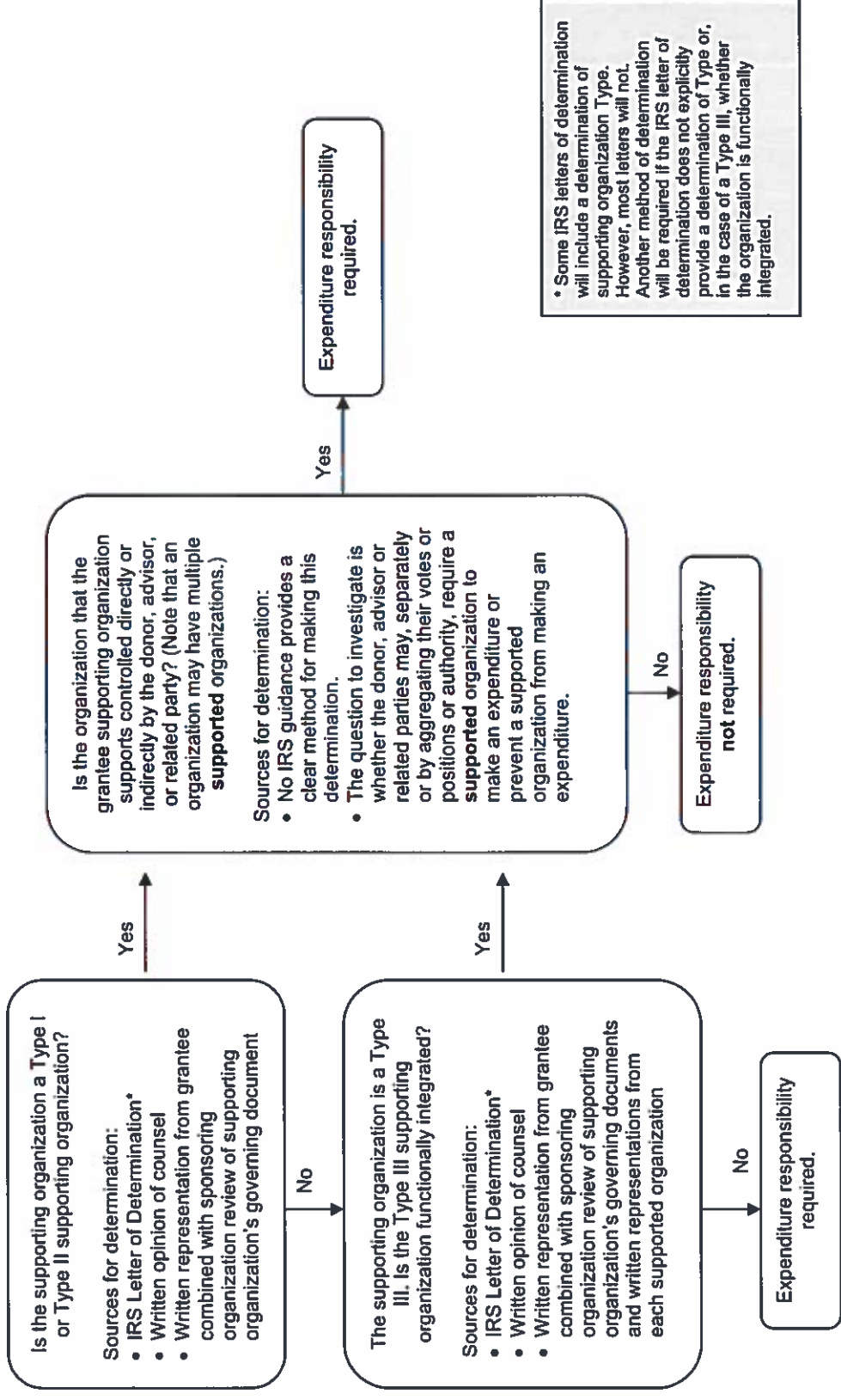
* A sponsoring organization may rely on a third-party provider if the provider pulls the information from the most currently available monthly update to the business master file, and the sponsoring organization retains a report with particular required information.

** The Council on Foundations continues to recommend against grants to private non-operating foundations from donor advised funds.

*** The information from the IRS Business Master File, IRS Letter of Determination or Third-party provider should confirm this classification. If not, additional information will need to be collected for clarification.



Grants to Section 509(a)(3) Organizations (Supporting Organizations) from Donor Advised Funds: Is Expenditure Responsibility Required?



* Some IRS letters of determination will include a determination of supporting organization Type. However, most letters will not. Another method of determination will be required if the IRS letter of determination does not explicitly provide a determination of Type or, in the case of a Type III, whether the organization is functionally integrated.

The information provided here is based on our continuing analysis of the Pension Protection Act. Every effort has been made to ensure accuracy of these documents. Please understand, however, that due to the complexity of the law and the fact that many of these provisions introduce issues that are new to the Internal Revenue Code, this information is subject to change. The information is not a substitute for expert legal, tax or other professional advice and we strongly encourage grantmakers and donors to work with their counsel to determine the impact of this legislation on their particular situations. This information may not be relied upon for the purposes of avoiding any penalties that may be imposed under the Internal Revenue Code.

COMMUNITY FOUNDATION OF WESTERN NEVADA DUE DILIGENCE POLICY

I. Purpose

“Due diligence” is the process of review that precedes the approval of a grant. The primary purpose of due diligence is to ensure that grants are made for purposes that are consistent with IRS regulations (i.e., charitable purposes) and that the organization receiving the grant is both legitimate and capable of carrying out the purpose for which the grant is intended.

While there is no comprehensive legal definition of the term “charitable,” the IRS describes charitable purposes as follows:

The term “charitable” is used in its generally accepted legal sense and includes relief of the poor, the distressed or the underprivileged; advancement of religion, advancement of education or science; erection of public buildings, monuments or works; lessening the burdens of government; lessening of neighborhood tensions; elimination of prejudice and discrimination; defense of human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

The IRS recognizes a far wider range of charitable organizations than is contained in the above definition, notably those in the areas of the arts and environmental groups. As a broad guideline, charitable activities generally are those that benefit whole classes or large groups of individuals or communities, involve no personal or private financial benefit and do not involve lobbying or electioneering.

II. Grants for Charitable Purposes

All grants made by the Community Foundation of Western Nevada (CFWN) shall be for charitable purposes.

The determination of whether an organization’s activities are charitable is made by the IRS in assigning a tax-exempt status. CFWN verifies charitable status by:

- a. Verifying charitable status using the GuideStar website.
- b. Obtaining a copy of the 501(c)(3) letter directly from the grantee organization if the organization is newly organized or not listed on GuideStar.

CFWN may also make grants to unincorporated groups and non-501(c)(3) organizations *when the grants are for a charitable purposes*. Grants made from donor-advised funds to non-501(c)(3) organizations must follow expenditure responsibility procedures, for which CFWN may charge additional expenditure responsibility fees.

In accordance with requirements for expenditure responsibility per the Pension Protection Act (HR4-2006), grants from Donor-Advised Funds may only be made to organizations described in section 170(b)(1)(A) of the Internal Revenue Code, type I and

II supporting organizations, and type III supporting organizations only if they are “functionally integrated.”

Under no circumstance will a grant from a Donor-Advised Fund be made to any supporting organization if the organization it supports is controlled by the donor or donor appointee. Grants outside the United States from Donor-Advised Funds are permitted when the grantee meets CFWN’s criteria. That criteria includes:

- a. Verification that the non-U.S. grantee is the equivalent of a U.S. public charity
- b. Completion of an Affidavit Packet for Non-U.S. Grantees

III. Grants from Donor-Advised Funds

CFWN follows the following procedures for grants made from Donor-Advised funds: Grants from Donor-Advised Funds for the following are expressly prohibited:

- a. For the purpose of supporting lobbying
- b. For the purpose of supporting nonpartisan voter registration activity
- c. To a private foundation
- d. For a scholarship
- e. For the benefit of an individual
- f. To type III supporting organizations that are not functionally integrated
- g. To any supporting organization that is controlled by the donor or donor appointee
- h. To an organization for the purpose of paying for an event, membership, or any purpose for which the donor or related parties will receive a tangible economic benefit
- i. Any grant which would impose penalties on the sponsoring charity and fund managers, per Section 1231 of the Pension Protection Act of 2006.

IV. Expenditure Responsibility Procedures

The Foundation has adopted these expenditure responsibility procedures to ensure that grants from donor-advised funds are used for a charitable purpose, and that appropriate oversight and documentation of the grant is maintained:

- a. Pre-grant due diligence

- i. Grant recommendations from donor advisors shall be submitted on the approved Community Foundation of Western Nevada form or shall otherwise contain language verifying that the donor will not receive any material benefit as a result of the grant.
- ii. Program Officer verifies that the recommended grant is consistent with the donor agreement.
- iii. Program Officer verifies that the recommended grantee is a qualified charitable organization and that the grant recommended is for wholly charitable purposes and not for any of the prohibited purposes stated above.

Should the Program Officer not have sufficient information to determine that the recommended grant meets the criteria, the donor-advisor and/or grantee will be contacted to secure additional information prior to Foundation approval of the grant.

V. Approval of Grants and Scholarships

All grants and scholarships, including all donor-advised grant recommendations, are reviewed and approved by the Board of Trustees.

VI. Distribution of Grants

Prior to distribution of the grant, correspondence is prepared that details any restrictions on the use of the grant by the qualified charitable grantee organization. Depending on the size of the grant and/or the reporting requirements, the grantee may be required to sign a grant acceptance agreement prior to being given the grant check.

The correspondence includes that upon receipt and deposit of the grant the recipient organization certifies that the donor-advisor and related parties is not receiving any tangible economic benefit, and that the funds will not be used for lobbying activities.

Grants are distributed by mail, and sent certified if the amount of the check is \$10,000 or more.

VII. Noncompetitive Grants

Non-competitive grants may include grants from area of interest funds, organizational endowments, agency funds, and designated funds:

- a. Due diligence activities are specified by the terms as outlined in the fund agreements. The Program Officer maintains oversight of all grants to ensure that non-competitive grants that are not from Donor Advised Funds are made in accordance with terms as per fund agreements.
- b. Noncompetitive grant recommendations are submitted by staff to the Board of Trustees for approval.

- c. Should terms as outlined in the fund agreement designate a use of the funds for other than general support, then a Grant Acceptance Agreement shall be signed by grantees at acceptance of the grant. Agreements are crafted to ensure grantee compliance and adherence to the terms of the grant, and include language to verify the required use of funds, with performance measurements such as outcomes, receipts, service delivery, or other objective criteria and verification requirements.
- d. Each Grant Acceptance Agreement includes a date when certain progress and/or final reporting requirements must be met by the Grantee. The Program Officer tracks due dates to ensure that reports are received.
- e. The Program Officer reviews grantee reports as received to verify that the use of funds was in accordance with the terms. The Program Officer maintains contact with grantees to ensure that reports adequately meet requirements.
- f. If terms are not met, then future grants are withheld until such time as the grantee complies or the Board uses the variance power to redirect the funds to another charitable purpose.

VIII. Competitive Grants from Donor-Advised Funds

- a. Prospective grantees provide timely submission of a written proposal that responds to the Community Foundation's RFP instructions for submitting a competitive grant;
- b. Staff conducts a review of all grant applications to verify adherence to instructions and compliance with all terms as outlined in the RFP.
- c. Qualified applications are reviewed by a Grant Recommendation Committee specific to the Fund from which the grant monies will be distributed. Staff facilitate meetings of Grant Recommendations Committees, take minutes, and ensure that the review process for competitive grants use the specific fund's evaluation criteria if the grant is from a fund, or shall use the Board Approved grant review criteria to evaluate proposals for grants from the unrestricted fund. Recommendations are submitted to the Board of Trustees for approval.
- d. A Grant Acceptance Agreement shall be signed by grantees at acceptance of the grant. Agreements are crafted to ensure grantee compliance and adherence to the terms of the grant, and include language to verify the required use of funds, with performance measurements such as outcomes, receipts, service delivery, or other objective criteria and verification requirements.
- e. Each Grant Acceptance Agreement includes a date when certain progress and/or final reporting requirements must be met by the Grantee. The Program Officer tracks due dates to ensure that reports are received.
- f. The Program Officer reviews grantee reports as received to verify that the use of funds was in accordance with the terms. The Program Officer maintains contact with grantees to ensure that reports adequately meet requirements.

- g. Progress and final reports are given to appropriate Foundation committees and to the Board, and to members of the Grant Recommendation Committee.

If terms are not met, then future grants are withheld until such time as the grantee complies or the Board uses the variance power to redirect the funds to another charitable purpose. In some cases organizations will be asked to return some or all of the grant funding.

IX. Grant Reporting

All grants made are reported on Form 990, including a brief description of the grant, the amount, and the charitable purpose.

The Program Officer will report quarterly to the Program Committee information regarding all restricted grants on the compliance of the grantee and on their adherence with Foundation direction on expenditure responsibility and reporting. This information will then be submitted to the Board of Trustees in their quarterly board reports, for their review.

Due Diligence Done Well

A GUIDE FOR GRANTMAKERS



BY LA PIANA CONSULTING



GRANTMAKERS FOR
EFFECTIVE ORGANIZATIONS

La Piana
CONSULTING



Grantmakers for Effective Organizations is a community of more than 350 grantmakers challenging the status quo in their field to help grantees achieve more. Understanding that grantmakers are successful only to the extent that their grantees achieve meaningful results, GEO promotes strategies and practices that contribute to grantee success. More information on GEO and a host of resources and links for grantmakers are available at www.geofunders.org.

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Founded in 1998, La Piana Consulting is a national firm dedicated to strengthening nonprofits and foundations by enhancing organizational strategy, collaboration, and leadership. La Piana Consulting's mission is to advance management practices throughout the nonprofit sector for greater social impact. Visit www.lapiana.org for more information about La Piana Consulting's services and additional resource publications.

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Due Diligence Done Well:

A Guide for Grantmakers

BY LA PIANA CONSULTING

GEO and La Piana Consulting would like to thank the following individuals for their feedback on this publication:

- ▶ Jessica Bearman, Project Streamline
- ▶ Allison Lugo Knapp, The Grantmaking School, Johnson Center for Philanthropy, Grand Valley State University
- ▶ Janice Opalski, Robert Wood Johnson Foundation

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Introduction

Selecting the right grantee partners is one of the most important jobs grantmakers do. But it is hard to tell from a written proposal whether an applicant represents a good fit and a smart investment for your foundation. You may want to learn more about the potential grantee's strategy and goals, its track record, its reputation and leadership, its programs and their outcomes, its finances, and the capacities and skill sets it brings to its work.

The challenge for you as a grantmaker is to learn as much as you can about potential grantees without asking for more information than you really need and, as a result, placing an added burden on the nonprofit organizations you work with.

Nonprofit leaders regularly complain that they spend too much time responding to grantmakers' requests for information — and that the due diligence process can be confusing, frustrating or worse. Grantmakers for Effective Organizations and La Piana Consulting encourage a more streamlined approach based on a thorough consideration of what grantmakers truly need to know in a given situation. We did not create this document to advocate on behalf of a rigid set of

practices but to provide an overview of key issues to guide a grantmaker's approach to due diligence.

This guide is based on one of GEO's most popular publications, *The Due Diligence Tool*. Originally published in 2004 with support from the David and Lucile Packard Foundation, the tool has been used by numerous grantmakers as a primer and a guidebook to the process of gathering information about prospective grantees during pre-grant assessment. The tool also has been integrated into the standard curriculum in a variety of grantmaker education programs.

This new publication, *Due Diligence Done Well: A Guide for Grantmakers*, includes some of the same information as the original tool, but the material has been updated to reflect new learning about effective due diligence. The newer content is based on recent research by GEO and Project Streamline, as well as La Piana Consulting's numerous consultations with grantmakers on the topic.

We applaud the many grantmakers who are finding new ways to make due diligence a more efficient and less burdensome process for nonprofits — and we look forward to learning more.

ACCESS ONLINE RESOURCES

GEO and La Piana Consulting have created a tool for grantmakers to accompany this guide, with detailed research questions, assessment criteria and more. Please visit www.geofunders.org.

SHARE YOUR STORY

How is your foundation dealing with the challenges and the opportunities due diligence presents? GEO is spotlighting innovative approaches that effectively balance grantmaker and grantseeker interests. Share your story at www.geofunders.org.

Due Diligence Done Well: A Guide for Grantmakers

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What Is Due Diligence — and Why Is It Important?

With origins in the world of business and finance, the term “due diligence” refers to the process through which an investor (or grantmaker) learns more about an organization’s financial and organizational health to guide an investment (or grantmaking) decision. For a grantmaker, the decision to invest is based on a balance of strategic fit with the grantmaker’s mission and priorities, objective data analysis, insight into the general state of the nonprofit’s health and stability, and intuition based on grantmaker experience.

Grantmakers often think about due diligence as a legal process. But U.S. law actually requires little in the way of due diligence when grantmakers are supporting domestic U.S. charities (see sidebar on page 4). As a result, doing due diligence well is largely a matter of learning enough about a grantseeker and its plans so that your foundation can be confident it is making a good grantmaking decision, without posing an undue burden on the grantseeker.

Due diligence is not just about financial and legal compliance issues. The alignment with your mission and goals, the role of the organization’s board, the position it holds in its field and community, the staff’s qualifications, and the organization’s communications and fundraising capacity — these factors and more can all come into play as you consider a request for support.

What you will want to know, and the process you will follow, will be based largely on your foundation’s needs in a given situation. Your due diligence requirements might vary depending on the size and nature of the grant, your foundation’s relationship with the grantseeker and other factors (see page 7). Too many grantmakers err on the side of wanting to know everything. GEO and La Piana Consulting advise that you temper your expectations and adopt a more streamlined due diligence approach, as outlined in the pages that follow.

Why Due Diligence Is Important

A grantmaker’s staff members are faced with multiple challenges in assessing whether to recommend a grant to their board or decision-making committee. First, they must ascertain whether and to what extent the proposed activity coincides with the grantmaker’s guidelines and priorities. Next, they must assess the value of the proposed activity itself — does it advance the field, provide needed services or generate new learning? If the proposal survives this initial scrutiny, it often must be weighed for its relative merits beside many other worthy proposals.

Due diligence, when done well, can help ensure greater alignment between a grantmaker’s mission and grantmaking. It also helps ensure that a grantmaker understands and can manage the risks associated with various grants, and that it is working with nonprofit organizations that have a clear likelihood of successfully achieving their goals.

While the idea contained in a proposal might be a strong one, there may still be many questions grantmakers might want to consider depending on the situation. For instance: Does the organization have a successful track record — or, if it is a startup, does it have the leadership and capacity to achieve its goals? Does it operate under an appropriate governance structure? Is it financially and operationally sound?

An overreliance on the strength of the ideas presented in a proposal, without answering these and other pertinent questions about the organization, can lead to funding a project that does not succeed in producing the expected results, or worse. While due diligence will not prevent the failure of an organization or a project, it can ensure that a grantmaker’s staff has a solid understanding of the various strengths and challenges a proposal presents.

In addition, with grantmakers and nonprofits under increased scrutiny with regard to spending their money in ways that have clear social impact, effective due diligence provides added confidence that grantmakers’ investments will deliver results for the communities and the causes they serve. The due diligence process provides an opportunity for grantmakers to demonstrate to themselves and others that they are operating in good faith to achieve their mission.

Due Diligence Done Well

As grantmakers conduct their due diligence work, they should keep in mind the nature and level of the demands they are placing on grantseekers. Obviously, grantmakers want all the information they can gather that will help them make a good decision. But time and again, nonprofit leaders report that excessive due diligence requirements are frustrating to them. “[M]ore paperwork than anything else” is how one nonprofit executive described grantmakers’ application and reporting requirements in an interview with Project Streamline.¹

Project Streamline identified “due diligence redundancy” as one of 10 ways in which the current system of grant application and reporting places significant burdens on the time, energy and effectiveness of nonprofits.

Since it is difficult to determine exactly what is needed for due diligence (and since the list regularly changes), grantmakers tend to play it safe at the recommendation of their legal and financial advisors, requiring redundant and often unnecessary documentation from grantseekers.²

Legal Compliance Issues in Due Diligence

The legal requirements associated with due diligence for grantmakers are not as complicated or as onerous as many people think. Here is what the law says you need to know:

1. **The charitable status of the potential grantee organization.** As part of their due diligence procedures, grantmakers should confirm the legal status of prospective grantees. The most common grantee category includes tax-exempt public charities defined under Section 501(c)(3) of the Internal Revenue Service code. However, there may be times when grantmakers will consider supporting other types of organizations, including nonprofits with other IRS designations such as 501(c)(4), international organizations or other private foundations. In these instances, different requirements may apply, such as demonstrating “expenditure responsibility.”³

2. **The intended use of the grant funds.** Under federal tax rules, private foundation funds may not be earmarked

or designated for activities defined as “lobbying” or attempting to “influence legislation” at the national, state or local level. Grantmaker funds also cannot be used for electioneering purposes — i.e., in support of or opposition to candidates for public office. However, grantmakers should be aware that advocacy-related activities — such as research, analysis and public education — are not included in the definition of lobbying. In addition, grantmaker funds can be used in support of activities related to the electoral process such as voter registration and get-out-the-vote drives.

For more information: GEO and La Piana Consulting encourage grantmakers to consult the following resources for additional information about the legal aspects of due diligence:

- ▶ Alliance for Justice
www.allianceforjustice.org
- ▶ Council on Foundations
www.cof.org
- ▶ Internal Revenue Service
www.irs.gov

¹ Project Streamline, *Draining in Paperwork: Distractions from Purpose: Challenges and Opportunities in Grant Application and Reporting*, 2008. Available at www.projectstreamline.org.

² Project Streamline, *Draining in Paperwork: Distractions from Purpose: Challenges and Opportunities in Grant Application and Reporting*, 2008. Available at www.projectstreamline.org.

³ The Council on Foundations has published a handbook, *Expenditure Responsibility Step by Step*, which outlines the expenditure responsibility process. Available at www.cof.org. In addition, the Council on Foundations has information at www.cof.org/4pqa on specific rules that apply to grants from private foundations and donor advised funds to certain supporting organizations (a specific type of public charity).

To the extent that due diligence imposes onerous requirements on nonprofits (i.e., to complete an excessive amount of paperwork, participate in numerous meetings and phone calls, and/or produce information and documentation that they do not have readily available), the process can become counterproductive, as it distracts the organization and its people from their mission-related work.

Making matters worse, grantmakers often demand the same level of due diligence for relatively small grants as they do for large ones. In GEO's 2008 survey of grantmakers, only 41 percent said their application requirements were often or always proportionate to the size and type of grant. Adding to the problem, many grantmakers have no idea how much work they are asking of prospective grantees. GEO found that only 12 percent of grantmakers said they collect information about how long it takes grantees to meet the administrative requirements tied to their grants.⁴

GEO's findings hint at a problem that many people in the nonprofit sector have noted for years: Organizations often spend so much time and money responding to grantmakers' compliance and due diligence requirements that the true value of a prospective grant can be much less than the actual grant amount. Nonprofit Finance Fund has advanced the concept of the "net grant" as a guidepost for the sector as nonprofits and grantmakers seek to streamline application and reporting processes. "How much did it cost your grantee to acquire and report on the grant

from you?" NFF's Clara Miller asks. "Subtract it from the grant, and that's the 'net grant.'"

If the net grant is too small to make a difference to the grantee (or if the requirements associated with the grant are too large as a percentage of the total grant), then the grantmaker is asking for too much.⁵

A Fresh Approach

Project Streamline advocates a "right-sized" approach to grant application and reporting. A right-sized approach to due diligence would consider the net grant to grantees in relation to the type and level of information a grantmaker needs in order to make a funding decision.

Doing due diligence well requires a high level of skill and sensitivity on the part of grantmakers.

The key is to create a balance between having enough information to understand the proposal and the nonprofit's health but not asking for so much that it becomes a challenge for the organization to comply with your requirements. As described below, weighing how much information you need means considering a variety of factors, from the size and nature of the grant (is it for program support or general operating support?) to whether the organization is a current or new grantee.

For example, if your foundation has an established relationship with an applicant, then you may already

have a strong understanding of the grantseeker's history and track record, its vision and financial health. In this case, you may want to focus your due diligence on finding out more about the proposed project and the organization's plans for evaluation.

Of course, doing due diligence well is about more than reducing the burden on nonprofit organizations. It is also about creating a transparent process so that grantseekers understand what is expected of their organizations and when, as well as how, decisions will be made. Communicating in an open and honest way with grantseekers about the parameters of the process—including key assessment criteria you will use—can reduce confusion and uncertainty and ensure that everyone has a clear idea of what to expect.

Due diligence as practiced is more art than science. While many grantmakers have systematic, across-the-board policies and procedures they follow, many others do not. As noted in the introduction to this guide, GEO and La Piana Consulting are not advocating for rigid, fieldwide standards. Rather, grantmakers should think about due diligence strategies that will work for them, and then develop structures and guidelines that will ensure a consistent, effective approach.

⁴ Grantmakers for Effective Organizations, *Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice*, 2008. Available at www.geofunders.org.

⁵ NFF information and Clara Miller quote are taken from the 2009 GEO publication *On the Money: The Key Financial Challenges Facing Nonprofits Today*—and *How Grantmakers Can Help*. Available at www.geofunders.org.

What Due Diligence Delivers: Benefits for Grantmakers

- ▶ **Greater confidence.** Grantmakers are like any other investors; they want to be sure they are making good decisions about where to put their money. Due diligence provides grantmakers with greater confidence that they are supporting organizations that are a good fit with their grantmaking mission and strategy, and that grantees offer a likelihood of achieving established goals.
- ▶ **More transparency.** When done right, due diligence creates more transparency between grantmakers and grantees. The process can provide a bigger window for grantmakers into a grantseeker's overall capacity, its ability to achieve the goals of a given grant, and (potentially) its need for other forms of support to increase its effectiveness and boost the chances of success. At the same time, an effective due diligence process should leave grantseekers with a better understanding

of the grantmaker's interests and needs, as well as how grantmaking decisions are made.

- ▶ **Better relationships with grantees.** A thoughtful approach to due diligence can lay the groundwork for a stronger relationship with grantseekers and grantees by enhancing communication and dialogue, building trust, and nurturing a shared understanding of a nonprofit's capacities, strengths and weaknesses.
- ▶ **Better insights into the issues facing nonprofits and the communities they serve.** The due diligence process can provide grantmakers with a stronger, more immediate understanding of the day-to-day challenges faced by nonprofits. In the course of due diligence work, including conversations with grantseekers' leaders, staff and others, grantmakers learn more about what is really happening on the issues they care about. Grantmakers can then apply this learning to target their grantmaking more effectively in the future.

Keeping It Simple: Designing an Effective Process

There is no single “right way” for a grantmaker to do the work of due diligence. Different grantmakers will have different priorities and different objectives as they set out to assess prospective grantees and their proposals. Given different levels of grants and different relationships with specific nonprofits, due diligence procedures are likely to vary even within the same grantmaking organization.

Among the keys to successful due diligence: keeping it simple. To state it again, grantmakers should be mindful that their assessment efforts not place an undue burden on grantseekers and that they result in a reasonable net grant. Scheduling numerous interviews and site visits will reduce the net grant to the organization, especially in a case in which you are making a relatively small investment. The key is to focus on the assessment topics that are most important to your foundation and keep the paperwork, meetings and phone calls to the minimum amount required to obtain the information you need.

Keeping it simple therefore means considering what information you already have about the grantseeking organization, plus what topics you are most concerned about, and then structuring your assessments accordingly.

In a competitive and open proposal review process, the grantmaker should consider every proposal in an equitable fashion so that applicants are ensured an objective review. While it might not make sense to adopt organization wide policies and standards for due diligence, the grantmaker may want to design approaches that are appropriate in specific program or funding areas. This will help ensure that you are not designing a new due diligence process every time a proposal comes in the door. The process can be flexible, based on such factors as your current relationship with the applicant and the size of the grant, but it should be sufficiently straightforward and clear so that all staff members understand your philosophy and priorities when it comes to doing due diligence well.

Four Things to Think About

GEO and La Piana Consulting have identified four key questions grantmakers should ask themselves as they consider how to design an effective and streamlined due diligence process in a given situation:

1 *What do you really want to know?*

Answering this question will depend in large part on the following three factors:

▷ *Your relationship with the grantseeker.* Is this an organization you have funded or worked with before? Do you know the leaders of the organization and have confidence in their ability to get results? If so, you might focus your due diligence less on learning more about the organization, its leaders and its finances and more on learning more about the project it is proposing. However, if this would be a new grantee for your foundation, you might pay more attention to key organizational-capacity issues.

▷ *The type of grant.* A request for general operating support might prompt you to want different information and documentation than a request for project support. Before providing general operating funds, for example, you might want to know more about the organization's governance and executive leadership, its track record, and other indicators of overall organizational effectiveness and health. This same information will be useful when making a project grant, but you might focus your due diligence in these cases on the precise scope and goals of the project, who is running it and other project-specific questions.

▷ *The size of the grant.* Is this a large grant for your foundation? Might it therefore require a higher level of due diligence and analysis? Conversely, if it is a small grant for you, what can you do to streamline the due diligence process? In addition, if the grant in question will have a substantial impact on the grantee's annual budget, how will you make sure you know enough about the nonprofit's capacity to manage a large infusion of funds?

2 How will you get the information you need?

There are numerous ways to develop a stronger understanding of an organization and/or project — from the organization's proposal, from conversations with the nonprofit's leaders and staff and others, and from independent research. Keep the grantseeker's perspective in mind as you set out to acquire the answers and the information you need. And be sure to consider what you can do to reduce the burden on grantseekers — for example, by looking to outside sources such as GuideStar for some of the information you want.⁶

Determining the right people to talk to about a proposal is crucial. Often, grantmakers will want to go straight to the top and be in contact with the executive director or board chair of a prospective grantee organization. But depending on the size and nature of the grant, it may be more appropriate to talk to other staff (for example, the director of development or the director of the program you are being asked to support).

Particularly in cases in which you are not making a large grant, it is probably unnecessary to be in close contact with the organization's senior leaders. To the extent that you ask them to spend time explaining a proposal or project or responding to other requests, you may be distracting them from the important work of leading the organization.

A related consideration is who within the grantmaking organization will be the point of contact for grantseekers. It is sometimes hard to avoid having

different staff members interacting with applicants about different issues — e.g., finance staff talking to grantseekers about the money and program staff about strategies and plans. The key is to make sure your due diligence process is not resulting in redundant requests and that your staff is clear about who is asking whom about what.

3 Are there ways to stage the due diligence process?

Grantmakers should consider what they need to know at different points in the due diligence process — and whether there are ways to “stage” the process so grantseekers do not have to provide all the information and documentation at one time.

Many grantmakers ask for a “letter of inquiry” in which the grantseeker provides a short outline of a proposed project before submitting a more formal proposal. Based on the letter of inquiry, the grantmaker can decide whether the project represents a good strategic fit and is something it might be interested in considering in a more serious and deliberate way. This type of process can help ensure that a grantseeker does not spend time and resources producing a proposal that is unlikely to be funded.

It is important to design the process so that any burdens you place on grantseekers to spend time responding to your requests fall primarily on those that are most likely to receive funding from your organization. Grantmakers should make every effort not to mislead potential grantees and create unrealistic expectations if they are unlikely to receive a positive response to their proposal.

Similarly, a grantmaker might not need to have all the information about a specific project in hand all at once. As a grantseeker goes through the process, and as the grantmaker becomes more convinced that a given proposal might represent a good investment, the grantmaker can ask for additional information about specific areas from staffing to the organization's plans for communications.

The key is to build agreement and consensus within the grantmaking organization about what types of information you want and need at what points in the process, and then to communicate clearly with the grantseeker about your expectations and needs.

4 What can you reasonably expect to learn — and in what amount of time?

The pace of work at most grantmaking organizations makes it difficult to carve out the necessary time to undertake a thorough due diligence process, even for major grants. Even when grantmakers take steps to “right size” their approach and reduce the burden on grantseekers, due diligence review takes time. Grantmakers therefore should structure their due diligence with an eye to how much time staff members have before they must make a decision.

Among the guiding questions as you consider the timing issue: What can your staff reasonably be expected to do in terms of due diligence in the specified amount of time? And how can you help ensure that staff are using this time wisely (i.e., by drilling down to what is truly essential information that will help your foundation make a good decision)?

⁶ GuideStar offers the ability to review an organization's financial and other information online at www.guidestar.org.

Of course, time is not the only limiting factor when it comes to what you can reasonably expect to learn in the course of your due diligence work. There is also the question of capacity — both your staff's capacity to manage an effective process and the nonprofit's capacity to deliver the information you need.

Many grantmakers hire program officers who are specialists in their fields rather than nonprofit management generalists. Public health physicians, highly respected educators, artists and environmental policy-makers work for many grantmakers, large and small. These professionals may not have had the opportunity to manage a nonprofit organization. It is an all-too-common refrain in philanthropy: "I know the program side, but I really don't know what to ask about the nonprofit organization." Your challenge is to design due diligence processes that provide staff members with a consistent set of guidelines about what they should be looking for and how to do due diligence well.

On the grantseeker's side, the capacity issue is that many organizations, particularly small, short-staffed nonprofits, simply cannot comply with the demands of a rigorous due diligence process. As a result, you should consider whether an applicant organization possesses the resources and capacity to respond to your requests. How much time will it take the grantseeker to deliver the information and documentation you want? And are there other sources you can go to (e.g., GuideStar or the IRS) to find the same information?

The Basic Steps

Every grantmaker needs to design its own approach to due diligence based on the questions and factors outlined above. The process will vary depending on the grantmaker's unique interests and priorities, as well as the nature of the specific proposal for funding. Nevertheless, there is still a basic framework that

will encompass most of the steps in the process. The framework, presented below, includes everything from the initial review of grant proposal materials through conversations with an organization's leadership and staff and presentation of your due diligence findings to your staff and board. Again, your foundation may not follow all these steps in every instance — what is important is making sure you are getting the information you need to make a good decision, without placing undue burdens on grantseekers.

STEP 1: Review the materials provided by the grantseeker. Here you are looking at the proposal to assess the fit between the grantseeker or project and your foundation's mission, guidelines and strategy. You will also want a sense that the grantseeker is approaching its work with a sound strategy and focus. Lastly, your review of the organizational and project budgets and supplemental documents should help you gain a better understanding of how the grantseeker plans to finance and manage the work described.



STEP 2: Conduct additional preliminary research.

A scan of the field in which an organization is working can help the grantmaker develop a more fine-tuned sense of where that organization fits in a movement or community. To what extent is it playing a unique and important role in bringing people and organizations together? Additional research (whether online or through conversations with community stakeholders contacts in the field) can help you develop a better sense of community needs and the degree to which the organization is meeting those needs.

Note: You may already have some of this information if the grantseeker is a current or former grantee of your foundation, in which case you can research the foundation's experience with the grantee and the outcomes of previous grants.

STEP 3: Engage in dialogue with the organization's leadership and key staff.

Conversations and other back and forth with the applicant can be a key step in the due diligence process. This is an opportunity to meet with the organization's leaders and key staff and get a stronger sense of their motivations, strategies and plans. As noted above, however, it is not always necessary to talk to an organization's executive director or board chair, especially in cases when a grant is relatively small (See "How will you get the information you need?" on page 8). In many cases, program and development staff should be able to answer most of the questions you may have.

You also should avoid allowing these conversations to rehash what you already know about the organization and its work. Rather, this is a time when you will want to hone in on key questions raised in your review of the proposal and your preliminary research.

STEP 4: Conduct additional follow-up research as needed.

If you emerge from your initial due diligence work and conversations with additional questions, you may want to explore answers through further research and discussions with colleagues, experts, and selected staff or members of the board of the grantseeking organization who can provide the information you need.

STEP 5: Analyze and apply your findings.

This is the step where the rubber meets the road and where you work toward a decision on the proposal.

Coming to a decision requires you to weigh those factors that are most important to your foundation, consider any red flags that surfaced in your due diligence research and the extent to which they should weigh on your decision, and begin to consider options for structuring the grant. This is the point in the process where you may consider how to mitigate any of the risks or challenges that surfaced in the course of your due diligence work. (See page 14 for more on reaching a decision.)

STEP 6: Synthesize the information and present to others.

In the final step of the process, you will present your due diligence findings (and final recommendation on the grant) to your board and others, and then get in touch with the grantseeker to communicate your decision. If multiple staff members have been involved in the due diligence process, you will want to develop a way to manage everyone's involvement. Sometimes, this will mean designating one staff member (e.g., the appropriate program officer) to lead the process by synthesizing the information, communicating the findings and serving as the primary point of contact for prospective grantees.

Rules of Thumb

Here are a few rules of thumb to guide the due diligence process and help you make sure it delivers good results for all involved:

Communicate, communicate, communicate. Be sure to explain the due diligence process and its purpose, ask informed questions and walk applicants through what you expect of them, when you expect it and why. Be clear in your communication with grant applicants — that is, let grantees know the types of constraints your foundation is working with (money available, timing, number of other proposals, etc.). Be sure to let applicants know when you will get back in touch with them — and stick to the schedule so you do not leave people in limbo.

Think about your long-term relationship with the applicant. Successful due diligence can contribute to the development of a strong and trusting relationship between grantmaker and grantseeker. This may be the first contact the grantseeker has had with your foundation, and it is your opportunity to lay the groundwork for a positive, open

relationship that will benefit your future work together. An applicant wants to know that the grantmaker understands the organization's work and recognizes its impact. In the course of your conversations and other contacts, help the applicant see that you have a strong sense of the issues the organization is working on and the challenges it is facing, and that you are focused on respecting (and learning from) the hard-won expertise of the nonprofit organization's leaders and staff.

Keep the grantseeker's perspective in mind. The proposal review process can be bewildering and frustrating for even the most seasoned nonprofit leaders. Do not require grantseekers to spend extra time producing information that you do not need or that will not have a significant bearing on your decision. Be available to answer any questions applicants might have about the process. And consider what grantseekers will be most concerned about as they go through the process, from the time frame for your decision to the criteria you will be using to assess their proposals. A little empathy will go a long way in your due diligence work.

Priorities for Due Diligence

Doing due diligence well means considering a range of factors that could contribute to a grantseeking organization's effectiveness and success. Getting a better idea of the organization's finances is important, but it is not enough. You might also want a better understanding of the organization's leadership, its track record and its evaluation plans for the work at hand.

Due diligence is a process that compels grantmakers to wrestle with the question, what defines nonprofit excellence? Countless books and articles have been written on this topic, and we encourage grantmakers to review the literature for insights and varying perspectives.

Grantmakers do not need to follow the same checklist in assessing every proposal. Different grantmakers will have different priorities and different criteria as they go through the due diligence process. One might be wondering about an organization's capacity to scale up its programs, while another might want to know more about a recent change in leadership. In addition, as noted in the previous section, your relationship with the grantseeker, the type and size of the grant, and other factors will influence the design of your due diligence process and the topics on which you will want to focus (see page 7).

Your challenge is to keep the process as simple and as streamlined as possible, while still developing a solid understanding of the organization and its plans.

For the purposes of this document, GEO and La Piana Consulting have identified eight factors that you may want to consider in your assessment of whether a specific nonprofit organization has the capacity and the potential to achieve excellent results. They are as follows:

¹ For more information about due diligence for startups, see GEO's *Tool for Assessing Startup Organizations: A Due Diligence Supplement for Grantmakers*, available at www.gcofundcrs.org



1. Organizational history and track record

An organization's history and track record can tell you a lot about its ability to successfully carry out the activities outlined in a proposal.

You will want to know about the organization's key milestones, including recent achievements that reflect well on the capacity of current board and staff members to deliver on their goals and objectives. You will also want to know how the organization has responded to key challenges such as leadership transitions and difficult economic times. This will help you develop a solid understanding of the sustainability of its programs and operations.

Note: If the organization is a startup nonprofit, your focus might be less on its history and more on its staff and board leadership and their credentials, as well as their plans for fundraising, project execution, communications and more.⁷



2. Governance and executive leadership

The board is the oversight body for a nonprofit organization, providing governance and strategic direction. Understanding how the board functions and how it collaborates with the executive director can give you important insights into the organization's overall stability and health. You will also want a sense that the organization has strong and capable leaders who work well together and whose individual strengths and weaknesses are balanced effectively. Strong governance is essential for an effective nonprofit.



3. Organizational vision and strategy

Effective organizations are guided by a clear vision and strategy.

The board, executive director and staff all should have a shared understanding of what their work is about, where it is leading them and their constituents, and what core strategies they are following as they strive to reach their goals.

But remember: Vision isn't everything. Execution is key. In your due diligence review, you will want to know that the organization's work is founded on realistic goals and proven tactics — and that the vision and strategy are feasible, given the resources and the capabilities the organization brings to its work. You will also want to know that the leaders of the organization have a strong understanding of current trends in the field and of how those trends will affect the organization's work in the months ahead.



4. Proposed project: planning, outcomes and evaluation

Your initial proposal review should give you a good sense of what the applicant intends to do with your support. As you weigh the organization's plans, you will want to know that the project methodology is sound. You will also want to know that the work is aligned with the organization's mission, strategy and theory of change, and that the project plan allocates sufficient resources (staff, expertise and money) and an adequate time frame to accomplish the project goals.

Another important consideration is whether the organization has a plan for evaluating its progress and applying what it learns. A nonprofit's leadership needs to know what it is trying to accomplish and to have a system for measuring its progress toward meeting those goals.



5. Human resources

It is important to know which staff members will be primarily responsible for working on a proposed project and what kinds of experience they bring to the work. Unless you already know key staff members from the organization, you may want to do more than read their staff biographies in the proposal. More broadly, grantmakers will have confidence in an organization to the extent that they feel it has an overall management structure that makes sense and that is based on clear job descriptions and logical lines of reporting for staff.

Another important consideration: Does the organization invest in staff training and development? Are there articulated, shared values within the organization and a culture that supports them? Does the organization have appropriate human resources policies and procedures in place?



6. External communications

A nonprofit's capacity to communicate about its work can have a huge impact on its overall effectiveness. As part of your due diligence work, you may want to explore whether the organization has a clear sense of its audience, a clear message to communicate about its work and its role in the community, and a communications plan for doing so. And, with online platforms and social media driving much of today's communication in all sectors, you may also want a sense of how the organization is using the latest communications tools to build understanding of and support for its work in the community it serves.



7. Relationships and networks

In this time of increased need and diminished resources, the willingness and the ability of a nonprofit to collaborate or partner with others are increasingly important to the organization's success. Board members and staff leaders should understand the position of their organization in the field, with whom they are competing for resources and where there are opportunities for strategic cooperation with others. Partnerships — ranging from one-off connections to long-term relationships — are an indicator that an organization is looking for ways to increase its impact and efficiency.



8. Financial health

A nonprofit needs appropriate financial systems for developing budgets based on realistic plans, plus the capacity to monitor those plans through accurate, timely reports that compare budgets to actual financial performance. You will want to confirm that the organization has prepared a realistic budget with reliable sources of revenue and reasonable expenses, as well as understand how it would respond to any unexpected revenue shortfalls or cost overruns. Additionally, you will want to know whether the nonprofit has a track record of operating in surplus, whether there are any cash flow challenges and whether the organization has sufficient financial reserve.

The due diligence process is also an opportunity to review a nonprofit's broader financial strategy and plans. Do the organization's leaders have well-thought-out plans for attracting sustainable sources of funding? Does the organization have what it needs to support operational requirements in areas from staff salaries to technology and other infrastructure? Has the organization considered an optimal structure for its balance sheet to help it realize its future plans?

The tool portion of this publication, *Due Diligence Done Well: A Tool for Grantmakers*, available online, provides a detailed overview of questions to consider and indicators of effectiveness across these topics. Please visit www.geofunders.org.

Reaching a Decision

The due diligence process rarely leads to a consistent set of findings — either all good or all bad. In reviewing your due diligence findings, you may uncover some issues that lead you to a favorable impression of the organization and others that cause concern. Making a decision means weighing a variety of factors. It means thinking through both the strengths *and* weaknesses of a proposal and the organization putting it forward. Coming out of the due diligence process, you should have a stronger understanding of whether or not a grant is a good fit with your mission and strategy and represents a sound investment for your foundation.

In addition, it is important to remember that the decisions you reach coming out of a due diligence process are not made in a vacuum. Grantmakers often weigh the merits of one proposal for funding against those of others. Limited resources, issues of timing, changing grantmaker priorities and the level of support for an organization from other grantmakers all can influence the ultimate decision about whether or not to support a specific organization or project.

Making the right decisions therefore depends a great deal on each grantmaker's understanding of the context in which those decisions will be made.

Reaching a decision, however, should not be a long, drawn-out process. Nothing is more frustrating for a nonprofit organization's staff and board than having to wait in limbo for weeks or months after complying with a grantmaker's due diligence requests — and then getting a response of “no.” Grantmakers should work to design due diligence processes that are as efficient and as fast as possible, while still allowing for a thorough exploration of key issues that they believe are important.

Identifying Risks, Red Flags and Deal Breakers

Different grantmakers will enter the due diligence process with different ideas about what might disqualify an organization from receiving a grant or what might be cause for concern. The key is to enter the process with a common understanding among your staff of any risk factors, deal breakers and red flags that might influence your decision.

Risk assessment. Deciding whether to provide a grant comes down to an assessment of risk versus opportunity. Adopting a big-picture view of the risks involved in making a particular grant will add to your confidence that you have taken key considerations into account in your decision. To the extent that you believe the strengths of a proposal or an organization outweigh the weaknesses, then you will likely decide that it is worth the risk to fund the organization and its plans.

Assessing Risk:

Questions to Consider

- ▶ Overall, what is the level and nature of the risk involved in making this grant? Does the potential benefit outweigh the risk?
- ▶ To what extent is the grantseeker's proposal founded on tested strategies and a solid track record of accomplishment?
- ▶ Is your foundation generally risk-averse, or is there an interest among your staff and board leaders in “pushing the limits” and exploring new (and sometimes untested) solutions to problems?
- ▶ Is the grantseeker working in a field or a community where your foundation has history and institutional knowledge, or is much of this new to you and your staff?

Some proposals will entail greater risks than others, and in some instances you may decide that the risks are simply too great for the program to merit your support.

But how do grantmakers assess and quantify the risk associated with specific proposals so they can justify the decisions they make, and then communicate those decisions in a cogent way? In a process that often relies in part on intuition regarding people and organizations and the projects they administer, how can grantmakers ensure (and demonstrate to others) that they are making appropriate decisions about risk based on the information they have in hand?

One answer is to develop criteria that provide staff with some guidance in assessing risk and making grantmaking decisions. For example, you might want to look at some of the categories identified in the previous section of this document (organizational history and track record, governance and executive leadership, etc.) and specify what level of risk (low, moderate or high) might be associated for your foundation with specific due diligence findings in each.

Some grantmakers might not be overly concerned if a grantseeking organization were proposing to work in a new program area, or to adopt a new strategy for achieving its mission, while others would consider such a grant a higher risk. Similarly, a change in leadership might be a major concern for some grantmakers but not others. The key is to find the level of risk your organization is comfortable with as a grantmaker and to make certain that all your staff and board members are on the same page.

Yet another factor to take into account in assessing risk

is the strategic alignment between your foundation and the prospective grantee. If this grantseeker is the only one in a specific community or field that is doing the kind of work you consider critical to your mission, then you might decide to make the grant despite identifying risks that in other instances could lead to a negative decision.

An alternative approach to risk assessment might come into play if your foundation is making an experimental type of grant. You may have all the confidence in the world in a grantseeker's leadership and finances, but perhaps the project itself entails some risk — for example, when the organization is trying something entirely new. As a grantmaker, you may believe the work is important and will generate valuable learning, but you may be uncertain at the outset about what kind of impact the work will have. In these instances, you will want to be clear about the level of risk involved in the grant. You might also want to pay special attention to the organization's plans for evaluation so that any new learning can be captured and applied to the work as the project moves forward.

Red flags and deal breakers. In the course of your due diligence, you may identify red flags in one or more assessment areas. Red flags are findings that indicate that the grantee may be deficient in an important area of organizational capacity and thus may not be fully capable of implementing the grant. For example, you may have concerns about a recent change in staffing or leadership at the organization, or about a program that has not lived up to the community's expectations.

A red flag does not necessarily mean you should deny the grant. Rather, it suggests a need to assess what the

Identifying Red Flags and Deal Breakers: Questions to Consider

- ▶ What red flags do you see and what do they tell you? How extensive are any deficiencies they suggest?
- ▶ To what extent could any deficiencies imperil the organization's ability to carry out the proposed program?
- ▶ Are the red flags representative of "fixable" problems or are they signs of broader dysfunction within the organization?
- ▶ If you still want to support the organization, what actions can you and the grantseeker take to address deficiencies related to the red flags you have identified?
- ▶ What are some of the key deal breakers that would cause your foundation to reject a request for funding?
- ▶ Conversely, what do you absolutely need to see in an organization in order to support it (a strong and active board, a current strategic plan and vision, a well-reasoned theory of change, a balanced budget, etc.)?
- ▶ What can you do to communicate to grantseekers about your deal breakers and the factors you consider key to an organization's overall health and success?

red flag tells you about the organization and its plans. This analysis should take into account the fact that all red flags cannot be weighted equally. Some deficiencies may be relatively simple to address through technical assistance to the organization (e.g., upgrading its accounting software or working with the applicant to bring financially skilled leaders to the board). In other cases, it may take more time to see real change (e.g., the organizational culture does not promote appropriate involvement of the board of directors). Sometimes, it may be highly unlikely that the organization will ever meet the grantmaker's minimum standard in an important area.

Red flag analysis can provide a better understanding of what a grantseeker might need in order to advance its mission and succeed in implementing a funded program. If you decide that the organization and the proposed project are worth funding, and the red flag issue you have identified can be addressed, then you may want to consider providing capacity-building support — such as additional grant money or consulting help to assist the organization in addressing the issue.

Deal breakers, by contrast, are issues or organizational problems that you believe will be a clear and obvious barrier to the success of the organization or project. Common deal breakers for many grantmakers include serious legal or financial problems or a poor track record of delivering on organizational goals.

Your foundation may have its own deal breakers, and it is important to communicate these to current and prospective grantees so they understand what will cause you to reject a proposal.

Stepping Outside the “Yes or No” Box

Grantmakers often will approach the due diligence process assuming they have two options based on what they learn: They can either make the grant or deny it. But there are other options as well, depending on the deficiencies uncovered during due diligence and the grantmaker's overall sense of the level of risk presented by the grant. Other options for grantmakers include the following:

▷ **Give an experimental grant.** In some instances, you may want to provide a grantseeker with an experimental grant so the organization can test certain ideas and approaches presented in a proposal — for example, if the grantseeker is proposing to use new and untested strategies, and you believe this work is important and could generate useful learning. An experimental grant will allow the organization to try something new or different. The grantmaker can then monitor the program supported by the grant and consider additional funding later if the work is proving a success.

▷ **Fund the proposed project, along with capacity-building support.** Another option is to consider offering capacity-building support as part of the grant package if the applicant appears to have capacity issues that could hinder the success of the funded work. Grantmakers can offer a variety of resources to organizations to assist them in building their capacity — from consulting and technical assistance on financial issues to leadership development support for the board and staff.

▷ **Propose a new scope.** On occasion, a grantmaker might have confidence in an organization and its program model but still have concerns that the goals or strategies associated with the proposal need fine-tuning. In these instances, a grantmaker might consider working with the grantseeker to rework or refine its plans — for example, by reframing the goals of the project.

▷ **Find partners.** Solving complex problems usually requires the involvement of multiple parties working on solutions from a variety of angles. To the extent that a due diligence process surfaces concerns that a problem or issue demands a more multifaceted response, a grantmaker might want to suggest that the grantseeker work with partners to help it achieve the goals of a project or initiative. This could mean structuring a grant in such a way that you fund just one aspect of the work (on the assumption that partners will take on other aspects), asking the grantseeker to come back to you at a later date with a proposal that reflects a more collaborative approach to the issue, or providing matching funds to help the grantseeker attract support from other sources.

Communicating Your Due Diligence Findings to the Applicant

Once you have completed your due diligence and reached a decision, it is time to relay that decision to the grantseeker. In your communication, you should try to ensure that your due diligence serves as a learning opportunity for the grantee. Whether your ultimate funding decision is yes or no, you have most likely learned things about the organization that may be helpful to its leaders and staff as they move forward.

Whatever the mode of communication — in writing, by phone or in person — think carefully about what you will say and how you will say it.

▷ **If you are denying fundings:** Of course, there will always be situations in which a grantmaker simply does not feel comfortable moving forward with a recommendation to fund a particular organization. Rejecting a grant request can be a difficult thing to do. Be clear about the reason or reasons why you are choosing not to fund the organization. Is its work duplicating other efforts you are funding? Do you have specific concerns about the organization's finances, strategy or other issues? Try to explain what it was about the organizations you *are* funding that caused them to stand out. Be honest but not critical or judgmental. Make observations about what you learned in your due diligence research. And be sure to take time to point out the strengths of the organization.

▷ **If you are providing fundings:** Be specific about what you see as the strengths of the organization and the proposed project and its fit with your mission and interests. Discuss any potential problems in the proposal or supporting documents, or things that you learned in the course of your conversations with the organization's leaders and staff and others that raised red flags or concerns. Whether addressing these issues is a condition of your funding or not, consider identifying things that the grantee can do to try to resolve any problems. Communicate your sense of excitement about your foundation's future (or continuing) work with the grantee, and use this opportunity to build the foundation for a relationship built on honesty, openness and a shared commitment to impact.

It is not the role of the grantmaker to play judge and jury. Whether your answer to a proposal is yes or no, offer your perspective, communicate with respect and help make sure that the due diligence process benefits both your foundation and the grantseeker.

Conclusion

Nonprofit leaders regularly assert that grantmakers' due diligence procedures are arbitrary, drawn out and confusing. Imagine for a moment what they might say about due diligence done well:

- ▷ "It didn't take too much of our time."
- ▷ "I felt that they weren't running us through a standard checklist. They only asked for information and documentation they really needed."
- ▷ "It was easy to find the information and documents they asked for. We didn't have to create a lot of new material just for them."
- ▷ "It was clear from the start what they wanted from us and what criteria they would be using to make their decision."
- ▷ "I knew how long it would take and understood the likelihood that we would get the grant."
- ▷ "I didn't have to deal with a lot of different people at the foundation requesting lots of different information."

Grantmakers are rightly concerned about spending their limited grant funds as wisely as possible. Due diligence provides a means for helping to make sure this happens. By developing solid systems for gathering information about the capabilities and key characteristics of grantseeking organizations, grantmakers can approach their work with more confidence that they are making good decisions — and that they are getting the best results possible.

As outlined in this guide, however, doing due diligence well means striking a balance between acquiring the information you need and not placing an unnecessary and counterproductive burden on the nonprofits that are looking to your foundation for funding. GEO and La Piana encourage all grantmakers to look at the process from the grantseeker's point of view. Help nonprofit leaders understand what kind of information and documentation you need and why you need it. Try to minimize the impact of the due diligence process on their daily work. And communicate clearly and openly about the process.

Approach due diligence with these priorities in mind, and you might just get a response like this: "I see why they're doing it...and it wasn't really that bad at all."

ACCESS ONLINE RESOURCES

GEO and La Piana Consulting have created a tool for grantmakers to accompany this guide, with detailed research questions, assessment criteria and more. Please visit www.geofunders.org.

SHARE YOUR STORY

How is your foundation dealing with the challenges and the opportunities due diligence presents? GEO is spotlighting innovative approaches that effectively balance grantmaker and grantseeker interests. Share your story at www.geofunders.org.

*GEO would like to extend
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