



Community Foundation for Monterey County

Due Diligence Policy and Procedures

It is the policy of the Community Foundation for Monterey County (CFMC) to award grants to nonprofit organizations which are both legitimate and trustworthy. In addition, grant applicants to any CFMC competitive process will be evaluated as to their efficiency, sustainability, effectiveness, and compliance with the guidelines established for the fund or funds designated for that process.

It is the policy of the Community Foundation for Monterey County to make no donor advised or competitive grants to:

- Individuals, or grants which will benefit any specific individual, with the exception of scholarships and awards;
- Supporting organizations of any type;
- Private non-operating foundations;
- Entities which provide any benefit to a donor advisor or related party, or to fulfill a donor advisor's legally binding pledge of financial support; and,
- Organizations which cannot or will not document their tax-exempt status and/or charitable objectives.

These exclusions serve the purpose of avoiding any taxable distributions, including those requiring expenditure responsibility, as defined by the Pension Protection Act of 2006.

To these ends, the following procedures are defined.

A. For any potential grantee, the following information is to be obtained:

- Verification of the organization's federal non-profit or tax-exempt status via Guidestar or Charity Check

B. For competitive grant applicants, the following information is to be obtained:

- Verification of the organization's tax-exempt status from the State of California Franchise Tax Board via the State of California Franchise Tax Board's Exempt or Revoked Exempt Organizations Lists
- The organization's current year operating budget;
- Most recent financials (ideally, the previous month) – balance sheet or statement of financial position, and income statement or statement of activities; and,
- List of current Board members with affiliations.

Acquisition of this information is part of the grant application process. Documents are attached electronically to the agency's permanent profile record and are evaluated as part of the review and approval process. In some cases, depending on the findings of that review, conditions may be included in the grant, such as more stringent evaluations, payment in installments, and/or required consultation with CFMC's Grants and Program staff.

All competitive grants require grant evaluation reports. The grant award letter requires the recipient of any CFMC grant to confirm the use of the awarded funds for the specific stated purpose and time limit, and establishes time frames within which 1) acknowledgment must be received, 2) grant funds must be expended, and 3) a grant evaluation report must be received. Grantees will be contacted for at least one year following the end of the grant period if a report has not been received. Future funding is dependent upon the grantee's satisfactory reporting.

C. For board discretionary grants, this information is requested as part of the Request for Proposal if not already on file. For agency payouts, the information is on file as part of the Fund Agreement documents.

D. For donor advisor recommendations, the following procedures will be followed:

- The Philanthropic Services Officer (PSO) first seeks information from the organization's web site, GuideStar, and/or Charity Navigator;
- The PSO creates a profile in FIMS for the grantee, including Executive Director, contact information, and the organization's EIN/tax ID number. For grants over \$10,000 the PSO will review and save the organization's most recent Form 990 to its FIMS profile folder. When the information is received and research is complete, it is attached electronically to the agency's permanent profile record. When analysis of these documents verifies that the organization does not fall into any of the excluded categories listed above, the request is routed by the PSO for approval by the Vice President of Grants and Programs (VPGP). If the grant is \$50,000 or more, the VPGP requests explicit approval from the Board's Executive Committee. The grant will not be made until approval is received.
- Donor Central's grant recommendation system and the donor-advised grant recommendation form require the donor to acknowledge the legal restrictions on the use of donor advised funds in a general sense, but it is our responsibility to determine whether the agency meets them through analysis of documents, as detailed above. The donor advisor will be advised by the VPGP if we are unable to verify the suitability of the recommended organization.

For donor advised grants, the grant award letter states that the recipient of the CFMC grant confirms the use of the awarded funds for the specific stated purpose and time limit by endorsing the grant check.

Expenditure Responsibility

Grants to organizations not described in Section 170(b)(1)(A) of the Internal Revenue code require expenditure responsibility. Common examples of such grants include:

- Grants to non-charities
- Grants to international organizations unless equivalency determination is followed
- Grants to private non-operating foundations
- Grants to certain supporting organizations (Section 509(a)(3) public charities)

For grants requiring expenditure responsibility, the Foundation will:

- Conduct 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

- Execute 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
- Require the grantee to maintain the grant funds with other charitable funds, separate from non-charitable funds
- Require the grantee to provide regular reports on the use of the funds and the charitable activity supported by the grant