Due Diligence Policy

The board of directors and staff of the Community Foundation of Northeast Alabama (CFNEA) are committed to the highest level of professional and ethical standards in all areas of operation, including donor services, investment of funds, accounting, administration, and grant making. By virtue of its mission, CFNEA is entrusted with contributions from donors and with the responsibility to distribute the donations according to donor intent and community need.

CFNEA will exercise due diligence in its operations by communicating openly and honestly with all constituents—donors, grant recipients, and the public. In particular, CFNEA will conduct due diligence in the following ways:

Charitable Determination

CFNEA advises all donors that CFNEA, in its sole discretion, determines whether grants and/or fund expenses are charitable. In addition, CFNEA ensures that all grants and fund expenditures are used for charitable purposes consistent with donor intent. If the intended fund distribution is determined not to be charitable, the distribution is not made.

The responsible staff member shall provide reasonable assurance that all grants are used for charitable purposes and are administered in accordance with relevant laws, and in consideration of established standards and best practices. The form and degree of staff analysis will be based on the following considerations:

- The type of fund from which the grant is to be made.
- The tax-exempt status of the intended beneficiary organization.
- Past relationship between CFNEA and the intended beneficiary organization; including whether or not the organization has received grants from CFNEA in the past.
- Documentation submitted by the intended grantee to include grant application, audited financial statements, strategic plans, logic models, etc.
- Degree of confidence among staff, trustees, and/or grants committee members that the activities for which the grant is intended is indeed charitable in nature.
Donor Services

Staff and donors will review fund agreements that clearly describe donor intent and the irrevocability of gifts. Donors will be encouraged to review documents with their personal advisors. Donors will also be oriented to CFNEA administrative fees and procedures for recommending grants, and they will receive quarterly reports that detail fund activity. Fund advisors should expect regular communication from CFNEA, including information on unmet community needs that could possibly be supported through their funds.

Due Diligence Procedures

Before a grant is awarded to a not-for-profit organization from any fund, staff obtain an IRS Letter of Determination to ensure the intended awardee is indeed a charitable organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and is exempt from taxation under Internal Revenue Code Section 501(c)(3) as a public charity described in Section 170(b)(1)(A)(vi).

Staff further review the IRS Publication 78 on the IRS website to ensure the intended grantee’s tax exempt status is current. When further review is warranted, staff assesses the intended grantee’s profile on Guidestar.org. If even further review is warranted, staff conducts on-site evaluations at the intended grantee’s location.

Grant Making

CFNEA makes grants to not-for-profit organizations capable of providing services for area residents. CFNEA will review the credentials of all not-for-profit organizations seeking grants through donor advised, field of interest, and unrestricted funds.

CFNEA maintains a file of IRS ruling letters for all grant recipient organizations. This file is reviewed on an annual basis, and expired letters will be removed.

CFNEA is obligated to withhold or recall grants to organizations that cannot or are unwilling to provide appropriate documentation and reports that ensure appropriate use of funds. This includes grant recommendations made by donor advised fund advisors.

Unrestricted and Field of Interest Funds

1. CFNEA 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 described in section 501(c)(3) and 
      509(a)(1), (a)(2), or (a)(3); and to private operating foundations. CFNEA 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 not-for-
      profit organizations and to businesses. Using expenditure responsibility as a 
      guideline, CFNEA will carefully supervise any such grants to document the use of 
      its funds solely for charitable purposes.

4. Verification of public charity status. CFNEA will use one or more of the following 
   methods to verify a potential grantee’s charitable status
   a. Grantee’s Internal Revenue Service determination letter or group ruling letter 
      identifying grantee as included in the ruling
   b. Internal Revenue Service, Exempt Organizations Select Check, 
   c. GuideStar’s Charity Check
   d. Verification of church status for houses of worship and affiliated schools not 
      found on the above lists

5. Verification of units of government.
   a. In most cases, CFNEA 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, CFNEA will consult the list maintained by 
      the Department of the Interior’s Bureau of Indian Affairs. The 2016 list is at 
      https://www.federalregister.gov/documents/2016/01/29/2016-01769/indian- 
      entities-recognized-and-eligible-to-receive-services-from-the-united-states-
      bureau-of-indian.
   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 
   electronic correspondence or virtual communication.

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 financials and audit

10. Review organization’s Form 990, where applicable, especially for business practices

11. Review proposed project budget.

12. Review organization’s strategic plan.

13. Review program outcomes and objectives.

14. Review program’s logic model.
**Designated and Agency Funds**

Before establishing a designated or agency fund, CFNEA verifies that the proposed designee is a public charity or unit of government. Fund distributions are made once each year in March.

**Donor Advised Funds**

1. **CFNEA will not make the following types of grants from a donor advised fund:**
   a. Grants to individuals, including grants payable to a school, college or university for the benefit of an individual selected by the CFNEA.
   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. **CFNEA will make grants from donor advised funds to most public charities and units of government.**
   a. CFNEA will follow the verification process outlined in steps 4 and 5 above to verify public charity status.
   b. In addition, CFNEA will follow the Process for Determining Supporting Organization Status 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, CFNEA will either refuse the grant or exercise expenditure responsibility.
3. **CFNEA 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 CFNEA elects to make an expenditure responsibility grant, it will follow the procedures outlined in the Donor Advised Fund Policies and Guidelines as well as the Expenditure Responsibility Policy.**
5. **If CFNEA elects to make a grant to a supporting organization it will follow the procedures outlined in the Expenditure Responsibility Policy.**

**Non-Endowed Funds**

When CFNEA serves in the capacity of a fiscal sponsor for a charitable purpose a non-endowed fund is created. CFNEA, in its sole discretion, will determine if the proposed project is truly charitable before agreeing to serve as a fiscal sponsor. In addition, the CFNEA, in its sole discretion, will determine if proposed expenditures from the fund meet the charitable criteria. When determining if an activity is charitable, CFNEA will take into consideration the purpose, the activities, the intended beneficiaries, and the type of expense. If the CFNEA believes the charitable criteria are not clearly met, the expenditure will be denied. The CFNEA accepts gifts
to the non-endowed fund in compliance with the *Gift Acceptance Policy* and follows all CFNEA policies including those mentioned in this policy.

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