

## Expenditure Responsibility

The Internal Revenue Service (IRS) requires private foundations to exercise a special procedure called “expenditure responsibility” over grants to organizations that are not U.S. public charities. In Expenditure Responsibility grants, the foundation assumes full legal responsibility under the tax laws for ensuring that the grant is used for its intended charitable purpose.

### IRS Requirements for Expenditure Responsibility Grants

The IRS has five basic requirements for Expenditure Responsibility grants, which are outlined below. These requirements were established to help ensure that grant funds are used for their intended charitable purpose. Our procedures for these grants are designed to ensure compliance with these five requirements.

1. The foundation must conduct a *pre-grant inquiry* to determine whether the proposed grantee is reasonably likely to use the grant for the specified purposes.
2. The foundation and grantee must sign a *written grant agreement* with specific terms required by law.
3. The foundation must require the grantee must maintain grant funds in a *separate account* on the grantee's books.
4. The foundation must require the *grantee to report*, in writing, not less than once a year during the term of the grant, explaining how it used the funds and describing its compliance with the grant terms and its progress toward the grant purposes.
5. The *foundation must report* each expenditure responsibility grant on Form 990-PF until all grant funds are spent in full.

### Pre-Grant Inquiry Document Request List

We will collect several organizational documents related to your organization's basic structure and capacity to track and manage grant funds. The information we receive on the basis of this review will help inform the required pre-grant inquiry.

#### *Please submit copies of the following documents:*

1. Audited financial statements (two years)
2. Current organizational budget
3. Evidence of legal status of organization (such as organizing documents, articles of incorporation, trust agreements, charter, tax classification or certification from appropriate authorities)
4. Overall organization chart
5. List of governing board, key officers and key participants on the project
6. Annual report
7. Evidence of grants made by any other organizations or units of government to the organization
8. A list of the following (or indicate if not applicable):
  - a. Any litigation proceedings involving the organization (including current status)
  - b. Any disputes with tax or other regulatory bodies
  - c. Any transactions with related parties (family members, board members, etc.)
  - d. Any recent changes in personnel (employee and/or board turnover)

*We may request other documents if additional financial due diligence is determined to be necessary.*

## **Reporting**

At a minimum, for Expenditure Responsibility grants we must receive annual narrative and financial reports no later than three (3) months after the close of your organization's accounting year. The annual report must cover how grant funds were used, compliance with the grant agreement, the grantee's progress towards grant purposes and a budget-to-actual comparison of grantee expenditures, as well as any other reporting requirements specified by the foundation in the grant agreement.

The annual reports to the foundation should cover only your organization's most recent fiscal year. The final report to the foundation should cover the entire term of the grant.

The due dates for the annual and final Expenditure Responsibility reports will be documented in the grant agreement. If we do not receive the reports when due, the IRS requires us to withhold all future payments (including funds associated with any other outstanding grant) until the reports are received.

## **Special Considerations**

Lobbying- Without exception, your organization may not use Expenditure Responsibility grant funds for lobbying as defined by the IRS. If you have any questions about whether the grant project you are proposing includes lobbying, please ask your grant team.

Regranting- In general, Expenditure Responsibility grant funds may not be re-granted to other organizations. Expenditure Responsibility grant funds may, however, be used to pay for contracts with other organizations to provide services to your organization in connection with the grant project. If you have any questions about whether the grant project you are proposing includes re-granting or contracting, please ask your grant team.

Capital Expenditures- We do not require special reporting on capital expenditures; however, your regular annual and financial reports should describe how any capital equipment purchased with grant funds has been put directly to use in an activity that furthers the charitable purpose of the grant.

Diversion of Grant Funds- If grant funds are used for any purpose other than the charitable purpose agreed to in the grant agreement, the IRS considers it a "diversion" of grant funds, and we are required to take all reasonable and appropriate steps to ensure the recovery and restoration of the funds. We are prohibited from making further payments until we have received adequate assurances that no future diversions will occur.