



Foreign Distribution of Funds Policy

Article I

Purpose

The purpose of the foreign distribution policy is to protect the interests of this tax-exempt not-for-profit corporation, the Institute for Rule of Law, Identity, Stability, and Culture (hereinafter IRISC), when it is contemplating entering into a transaction or relationship with a grantee which is a foreign organization. This policy is intended to institute basic vetting and internal controls and safeguards to apply in the event that any transaction involves downstream sub-guarantees or recipients which are foreign organizations to protect charitable resources from exploitation by terrorists, terrorist organizations, or terrorist supporters. Such internal controls are further intended to ensure the deductibility of the contribution by applying safeguards which certify that the domestic organization has *reviewed* and *approved* the domestic or foreign project as being in furtherance of its own exempt purpose; the donor's contribution is not earmarked in any manner for a foreign organization; and the use of the contribution given to each and every foreign organization is controlled and monitored solely by the discretionary authority of the domestic organization. The goal of this policy is to supplement, but not replace, any applicable state and federal laws governing foreign distribution of deductible charitable contributions applicable to nonprofit and charitable organizations. This policy represents a risk-based approach to developing and monitoring strong internal controls to guard against the threat of diversion of charitable funds or exploitation of charitable activity by terrorist organizations and their support networks.

Article II

Definitions

1. Charitable Contribution

A contribution or gift to or for the use of a corporation, trust, or community chest, fund or foundation –

- A. Created or organized in the United States or in any possession thereof, or under the law of the United States, any State or Territory, the District of Columbia, or any possession of the United States;
- B. Organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals;

- C. No part of the net earnings of which inures to the benefit of any private shareholder or individual; and
- D. No substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation.

2. Asset

Any item of value, including, but not limited to, services, resources, business, equitable holdings, real estate, stocks, bonds, mutual funds, currency, certificates of deposit, bank accounts, trust funds, and the property and investments placed therein.

3. Grantee

An immediate grantee of charitable resources or services whether domestic or foreign.

4. Domestic Corporation

A corporation created or organized in the United States or in any possession thereof which meets all the requirements of section 170(c)(2) of the Internal Revenue Code (hereinafter IRC).

4. Foreign Organization

An organization which is chartered in a foreign country and is so organized and operated that it meets all the requirements of section 170(c)(2) of the IRC.

Article III

Procedures to Maintain Expenditure Responsibility and Ensure that Assets Transferred to Specific Projects in Foreign Countries will be Used for Exempt Purposes

Each and every director, officer and executive level employee must sign a statement that he/she understands that the IRISC is a charitable organization and that in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes. Should the organization provide resources to any non-exempt entity under section 501(c)(3), then such an expenditure must further IRISC's tax-exempt purposes; otherwise, such an expenditure would not be authorized under the organization's Articles of Incorporation or the Internal Revenue Code. The organization's resources shall only be used for forwarding its charitable purposes. The organization shall not use any of its resources or make any expenditures that result in private inurement whatsoever. Any organization to which IRISC provides resources shall be reasonably investigated.

Pursuant to Executive Orders 12947 and 13224, the organization will check the Office of Foreign Assets Control's (hereinafter OFAC) list of sanctioned countries and the OFAC list of Specially Designated Nationals and Blocked Persons (hereinafter SDNs) to ensure that the organizations do not appear on the list. If IRISC has any doubt with respect to whether a potential recipient has the ability to ensure the safe delivery of charitable resources independent of influence by, or in association with, any terrorist organization, then it will not provide any resources whatsoever to the organization.

The organization shall further comply with Revenue Ruling 63-252, 1963-2 C.B. 101 and 66-79, 1966-1 C.B. 48 by only approving foreign projects that are reviewed and approved as being in furtherance of the organization's own exempt purpose. In addition, IRISC shall only approve foreign projects if IRISC has control and discretion as to the use of the contributions given to foreign organizations.

For funds distributed internationally, IRISC exercises expenditure responsibility (similar to what is required of private foundations) and distributes to non-governmental organizations only and under specific detailed circumstances. A written agreement shall be established between IRISC and all distribution recipient organizations. A sample agreement indicative of what IRISC will enter into with foreign recipient organizations may be found in the appendix to the Foreign Distribution Policy. Following best practices in grant management, the written agreement requires that recipients annually provide the following:

- An Annual report including summary of operational activities
- A financial report, narrative description, and photos of how money from IRISC was spent during the previous year
- A plan for spending any unspent funds in furtherance with IRISC's goals during the next calendar year
- IRS determination letter of 501(c)(3) status, or equivalent for foreign charities.

Article IV

Practices and Safeguards to Maintain Control and Discretion of Any Funds Transferred to a Foreign Organization

IRISC may transfer resources to any entity, whether or not a 501(c)(3) organization, only after reviewing and approving that the expenditure will result in the furtherance of the organization's own exempt purposes. In addition, IRISC shall not make any transfer of assets or expenditure without maintaining control and discretion as to the use of the contributions given to foreign organizations. Prior to providing any entity with any resources, IRISC shall engage in due diligence investigations and basic vetting with respect to the entity.

In addition to due diligence investigations, the organization has in place additional

safeguards ensuring its resources are expended for its tax exempt charitable purposes, including ongoing monitoring and oversight by its independent governing board to ensure all grant programs remain in compliance with applicable state and federal law. The IRISC's Articles of Incorporation and the Internal Revenue Code prohibit grant funds from being used in any way inconsistent with the purposes described in Section 501(c)(3) of the IRC. If IRISC should have any doubt with respect to whether a potential grant recipient has the ability to ensure the safe delivery of charitable resources independent of influence by or association with any terrorist organization, or any other organization that will not agree to use such funds to further the charitable purposes of IRISC, then it will not provide any resources whatsoever to the organization.

IRISC shall also require that the recipient organization enter into a written agreement following best practices in grants management. The agreement will require that recipients annually provide the following: an annual report; a financial report and narrative description and photos of how money from IRISC was spent during the previous year; a plan for spending any unspent funds in furtherance with IRISC's goals during the next calendar year; and their IRS determination letter of 501(c)(3) status, or equivalent for foreign charities.

Article V

Procedures and Safeguards to Ensure that Grants to Foreign Recipients are Not Diverted for Non-Exempt Purposes

1. Procedures for Reviewing and Approving Specific Projects Proposed by Foreign Exempt Organizations

a. Due Diligence Investigations Performed Prior to Grant-making

The investigation will involve checking the OFAC list of sanctioned countries, the OFAC list of SDNs and the State Department's Terrorist Designations Lists (hereinafter TDL), which includes the Terrorist Exclusion List, to ensure that the persons, organizations, and foreign countries associated with the specific project do not appear on those lists. In addition to checking the OFAC lists, IRISC shall check OFAC's website for other information relating to sanctioned activities and countries. IRISC shall also check all other publicly available information concerning potential terrorist organization or support networks thereof. Furthermore, IRISC shall voluntarily comply with the Anti-Terrorist Financing Guidelines as issued by the United States Treasury Department.

The organization shall also perform due diligence investigations on any entity that may potentially receive funds, including, but not necessarily limited to, conducting an investigation of the entity involving "googling" the organization asking for references, contacting any individuals/entities with knowledge regarding the organization, contacting federal agencies and asking about the entity, and hiring third party private investigator companies to investigate the particular entity.

b. Basic Vetting and Programmatic Review of Foreign Organization Prior to Grant-making

Prior to entering into any agreement or providing any entity with any resources, and to the extent reasonably discoverable, the IRISC shall conduct basic vetting of grantees to obtain the following information about the organization: name of entity, and any acronyms, aliases, old names or changed names under which the organization has operated; organizational documents for the entity; available postal, email and URL addresses and phone numbers of each place of business of grantee; contact and background information for grantee's key employees; and contact and background information for all persons or organizations to which the grantee provides resources or charitable services. IRISC shall conduct a reasonable search of all publicly available information to reasonably ascertain whether the grantee is suspected of activity relating to terrorism, including terrorist financing or other association or support. If IRISC has any doubt with respect to whether a potential recipient has the ability to ensure the safe delivery of charitable resources independent of influence by or association with any terrorist organization, then it will not provide any resources whatsoever to the organization. IRISC shall continue to check OFAC's master list of SDNs, sanctioned countries and TDL's list of suspect organizations.

In addition to a due diligence investigations and basic vetting, IRISC shall conduct a programmatic review of the recipient organization to ensure that the grantee has taken adequate measures to protect its charitable resources from diversion to, or abuse or influence by, terrorists or their support networks. If the grantee has not taken adequate steps to protect its charitable resources, IRISC shall require the organization to do so, or else terminate the relationship.

If IRISC should discover any suspicious activity relating to terrorism during its basic vetting prior to providing resources or during its ongoing monitoring and oversight of grant programs, even if it does not directly involve an OFAC match, it shall report such information directly to the Treasury Department and Federal Bureau of Investigation.

2. Provisions Used by Written Agreements to Ensure that the Foreign Organization will Use the Assets in Furtherance of the Domestic Organization's Intended Exempt Purpose

Any and all agreements that IRISC enters into with any organization involving any transfer of assets must include provisions ensuring that the monies shall be used only for IRISC's tax exempt purposes as described in Section 501(c)(3) of the IRC and that IRISC shall have discretion and control over the expenditure of these funds. The agreements shall contain language requiring any potential recipient to demonstrate how the funds were used to further the tax exempt purposes of IRISC. The potential recipient must agree to provide controls restricting the use of these funds for the charitable purposes of IRISC and controls preventing any diversion of these funds from said purposes. Should the funds be used outside the specific tax exempt purposes, the recipient organization shall be required by the agreement to return said funds to IRISC immediately. In addition, the agreement with any entity will contain a provision stating that if the resources are not used for the exempt purposes pursuant to the agreement, the agreement shall be terminated, and the organization shall not receive any additional funds or

otherwise.

3. Reports or Other Mechanisms Used to Track the Use of Grant of Grant Funds

IRISC shall employ the safeguards detailed in the voluntary Anti-Terrorist Financing Guidelines issued by the Treasury Department including, but not limited to, sufficient auditing or accounting controls to trace any and all charitable assets and services between delivery by the charity and/or service provider and use by the grantee. In addition, IRISC shall not give up discretionary authority or control over any of its funds at any time.

For funds given internationally, IRISC shall exercise expenditure responsibility and distribute to non-governmental organizations only and under specific and detailed circumstances. A written agreement shall be established between IRISC and all distribution recipient organizations. Following best practices in grants management, the written agreement requires that recipient organizations to annually provide the following: an annual report; a financial report and narrative description and photos of how money from IRISC was spent during the previous year; a plan for spending any unspent funds in furtherance with IRISC's goals during the next calendar year; and their IRS determination letter of 501(c)(3) status, or equivalent for foreign charities.

4. Renewed Due Diligence Investigations in the Event IRISC Makes Repeated Grants to the Same Foreign Grantee

While IRISC does not foresee making repeated transfers to a foreign grantee, it shall conduct a repeated, and periodic, due diligence investigation, including, but not limited to, checking the OFAC Master SDN list, OFAC list of sanctioned countries, OFAC website and TDL lists, each and every time it is contemplating making a single transfer to a foreign grantee.

5. Procedures for Ensuring that Grant Agreements, Reports and Other Significant Correspondence are Written or Accurately Translated into English

All of IRISC's agreements, reports and other significant correspondence shall be drafted in English or accurately translated into English. Records of all agreements, reports and other significant correspondence shall be kept in English.

6. Transfer of funds

IRISC shall make any transfer of assets to a foreign organization in furtherance of its exempt purpose by check or wire transfer pursuant to the Anti-Terrorist Financing Guidelines issued by the Treasury Department.

Article VI

Practices to Ensure that Grants to Foreign Recipients are Not Diverted to Support Terrorism or Other Non-Charitable Activities

In addition to the internal controls established to maintain control and discretion as to the transfer, use and oversight of funds given to foreign organizations in furtherance of IRISC's exempt purpose, the organization shall voluntarily comply with all applicable Anti-Terrorist Guidelines as issued by the Treasury Department. IRISC shall continuously check the OFAC lists, OFAC website, and the TDL list for names of persons or organizations with whom IRISC is dealing and who may reside in the sanctioned or non-sanctioned countries in which the organization is operating.

If IRISC should consider a grant application in one of OFAC's sanctioned countries, then the organization shall first conduct basic vetting and a due diligence investigation to determine whether the grant activities would meet the operational test for deductibility under 501(c)(3). If IRISC can ensure that the charitable grant activities further its exempt purpose, that there is a policy-permissible reason for OFAC to grant it a license to conduct charitable activity in the sanctioned country, that IRISC could maintain control and discretion of grant funds entering the country, and that IRISC meets all other requirements under this policy, the organization shall contact OFAC and apply for a license to engage in transactions that would otherwise be prohibited. IRISC shall not enter into an agreement with any organization having any office or presence in a sanctioned country or provide any resources to organizations in a sanctioned country without first obtaining a valid license from OFAC in compliance with federal law.

Article VII

No Direct or Indirect support of Foreign Governments

IRISC was not formed to support any foreign government. Rather, the organization's focus is on providing expertise, education, and research with respect to rule of law and stabilization to foster reconstruction and provide stability to foreign states and regions at risk of, besieged with, or emerging from conflict due to civil strife. Although IRISC will partner or collaborate with governmental agencies, academic institutions, professional organizations, NGOs and others to advance its mission, it shall not provide any financial, legal, political support or any other means of support to any foreign government. Pursuant to Revenue Ruling 68-117, IRISC shall file all necessary forms and financial reports with the Internal Revenue Code (hereinafter IRC), including Form 1023, to ensure that its cooperation with foreign government agencies while pursuing its charitable and educational purpose shall meet, and continue to meet, the operational test for exemption under 501(c)(3).

Article VIII

Annual Statements

IRISC: Each IRISC director, principal officer and member of a committee with board of directors' delegated powers shall annually sign a statement which affirms such person:

- a. Has received a copy of the Foreign Distribution Policy,
- b. Has read and understands the policy,
- c. Has agreed to comply with the policy, and

d. Understands IRISC is charitable and in order to maintain its federal tax exemption and deductibility it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

Foreign Grantee: Each foreign organization recipient of IRISC grant funding shall annually provide the organization with the following reports and documentation:

- a.** An Annual report including summary of operational activities
- b.** A financial report, narrative description, and photos of how money from IRISC was spent during the previous year
- c.** A plan for spending any unspent funds in furtherance with IRISC's goals during the next calendar year
- d.** Their IRS determination letter of 501(c)(3) status, or equivalent for foreign charities.

Article IX

Periodic Reviews

To ensure IRISC operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a.** Whether expenditures are responsible and further exempt purposes during and after transfers of assets to specific projects in foreign countries.
- b.** Whether control and discretion of any funds transferred to a foreign organization have been maintained by due diligence investigations, provisions and safeguards in grant agreements, tracking of funds used by foreign grantees, repeated due diligence investigations, accurate translations of correspondence into English and disbursement of grant funds by check or wire pursuant to the Anti-Terrorist Financing Guidelines issued by the Treasury Department.
- c.** Whether grants to specific organizations in foreign countries conform to IRISC's written policies, are properly recorded, reflect reasonable and responsible grant management practices, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction for any individual, organization or foreign government.

Independent ongoing oversight shall be conducted by the independent governing board to ensure transparency and accountability of distribution of funds to foreign organizations. The board shall be responsible for the charitable organization's compliance with relevant laws, its finances and accounting practices and for the adoption, implementation, and oversight of practices, including financial recordkeeping that will safeguard charitable assets effectively.

Article X

Violations of the Foreign Distribution Policy

When conducting the periodic reviews as provided for in Article IX, IRISC may, but need not, use independent outside advisors. If outside experts are used, their use shall not relieve the board of directors of its responsibility for ensuring periodic reviews are conducted. Following best

practices in fiscal responsibility, if IRISC should detect any misuse of resources during its ongoing monitoring of the grantee and its activities funded under the grant, IRISC shall take immediate steps to correct such misuse of IRISC resources by the foreign grantee and shall terminate the relationship should the misuse continue.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) That I am the duly elected and acting secretary of Institute for Rule of Law, Identity, Stability & Culture (“IRISC”), a Kansas not-for-profit; and

(2) That the foregoing Foreign Distributions Policy has been duly adopted by the Board of Directors held on the ____ day of _____, 2009.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and affixed the seal of the said corporation this ____ day of _____, 2009.

Donald B. Smith

Secretary