



## A FIO PARTNERS PERSPECTIVE:

### **Due Diligence In Layman's Terms**

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When nonprofit organizations consolidate, such as when they enter into partnerships, networks, parent corporations or mergers, it is important for the parties to the agreement to understand fully the condition of their potential partners before the final agreements are signed. This process of testing the “fitness” of the partners is called “due diligence.” Due diligence is designed to ensure that indebtedness and legal entanglements of each party are fully disclosed and that the assets claimed by each party actually exist.

This is accomplished by an exchange of documents. This exchange occurs by the transfer of an agreed upon list of documents to a secure setting such as a locked conference room. Representatives of the parties are then provided with access during a specified timeframe to review the documents. The representatives may be paid attorneys or accountants, or may be Board members with similar credentials. The representatives generate a list of questions that are submitted to the other party or parties. A timeframe is set for the answers to be returned. This process continues until the questions of all parties are satisfied.

The process of due diligence is designed and agreed to by the parties. Depending upon the amount of financial risk entailed, the materials exchanged by the parties may vary. The materials may also vary by industry. For example, organizations that provide services funded by Medicaid have a specific set of documents that pertain to this type of funding. It is an important step, then, for the parties to agree on the full set of documents to be exchanged.

*FIO Partners is the exclusive provider of customized consulting services, unique assessment tools, and curriculum to ensure the healthy development and growth of nonprofit organizations, foundations, government entities and those who serve them.*

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