Where Local Good Grows

Hendricks County Community Foundation

Due Diligence Policy & Procedures

The Hendricks County Community Foundation, Inc. (“HCCF”) is a grantmaking organization which requires that all grants be made for charitable purposes. In order to confirm that grants are made for charitable purposes, HCCF has adopted the following procedures.

HCCF staff are responsible for conducting due diligence in support of grant recommendations and decisions made in accordance with the *Grantmaking Policy*. Due diligence procedures are applied based on the type of fund, nature of the grant, and level of risk, and may vary depending on the grantmaking approach approved by the Board of Directors.

Grant decisions are made under the authority delegated to staff and the Board of Directors as outlined in the *Grantmaking Policy*. Due diligence supports these decisions by confirming that all grants meet charitable purpose requirements and applicable policies.

To ensure we are doing our part to foster a welcoming and inclusive community, it is HCCF's policy that programs, funding and employment with HCCF are available and open to all persons without regard to race, sex, age, color, religion, national origin, marital status, sexual orientation, gender identity, disability, citizenship status, genetic information, military service/veteran status, or any other category protected under state or local law.

Documentation of due diligence performed, including verification of charitable status and any additional review conducted, will be maintained in accordance with HCCF policies.

<u>Grants from Unrestricted and Field of Interest Funds</u>

1. HCCF staff review grant requests, applications, and proposed grants as appropriate to the fund type and grantmaking process.
2. For grants made through Board-approved unrestricted grantmaking processes, including pooled grantmaking, due diligence may be conducted at the program or portfolio level, as appropriate.
3. Areas reviewed include:
    a. Is the application complete, including attachments?
    b. Is the request clear?
    c. Does it meet the eligibility requirements for the fund or program?
    d. If from a field of interest fund, does the grant comply with donor intent?
4. Charitable status and charitable purpose:
    a. Grants may be made to public charities; that is organizations described in section 501(c)(3) and 509(a)(1), (a)(2), or (a)(3); and to private operating foundations. HCCF 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 limited circumstances, as determined by HCCF, grants may be made to other types of nonprofit organization and to businesses. Using expenditure responsibility as a guideline, HCCF will carefully supervise any such grants to document the use of its funds solely for charitable purposes.
5. Verification of public charity status. HCCF will use one or more of the following methods to verify a potential grantee's charitable status
    a. Internal Revenue Service, Exempt Organization Search
    b. Internal Revenue Service Business Master File
    c. Grantee's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling
    d. Candid (GuideStar) or other recognized nonprofit verification tools
    e. Verification of church status for houses of worship and affiliated schools not found on the above lists
6. Verification of units of government.
    a. For Native American tribal governments, HCCF will consult the list maintained by the Department of the Interior's Bureau of Indian Affairs.
    b. Staff will analyze, with assistance of counsel, if necessary, situations in which governmental status is not clear.
7. Contact the potential grantee. This may be by telephone, site visit, meeting or e-mail.
8. 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
9. Determine the project's overall potential impact on the community
10. Review program outcomes and objectives
11. Review financials and audit
12. Review organization's Form 990, where applicable, especially for business practices
13. Review proposed project budget.

<u>Designated Funds</u>

Before establishing a designated fund, HCCF verifies that the proposed designee is a public charity or unit of government. Grants generally are paid once each year, and charitable status is reconfirmed before each grant.

<u>Charitable Organization Advised / Agency Endowment Funds</u>

Before establishing an agency endowment fund, HCCF verifies that the organization seeking to establish the fund is a public charity. If a unit of government, such as a public library, asks to establish an agency endowment fund, HCCF will consult with counsel to determine whether this is permissible under the law of Indiana**.** Agency grants are paid out to the relevant organization named in the fund, generally once each year.

<u>Grants from Donor Advised Funds</u> (for additional detail, please see our current *Donor Advised Fund Handbook)*

1. HCCF will not make the following types of grant 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 HCCF.
    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. HCCF will make grants from donor advised funds to most public charities and units of government.
   a. HCCF will follow the verification process outlined in steps 4 and 5 above to verify public charity status.
   b. In addition, HCCF will follow the Process for Determining Supporting Organization Status outlined in the next section 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, HCCF will either refuse the grant or exercise expenditure responsibility.
3. HCCF 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 HCCF elects to make an expenditure responsibility grant, it will follow the following process:
   a. HCCF will conduct a pre-grant inquiry to determine whether the proposed grantee is reasonably likely to use the grant for the specified purposes and that those purposes are charitable.
   b. HCCF and grantee will sign a written grant agreement that includes all provisions required by Treasury Regulations.
   c. The grantee will be required to maintain the grant funds in a separate account on the grantee's books.
   d. The grantee will be required to submit a written report summarizing the project promptly following the end of the period during which it used all grant funds and to submit any interim reports HCCF may require

Expenditure Responsibility

Though HCCF is required to use its funds for charitable purposes it is not restricted to only funding 501(C)(3) public charities. However, if HCCF makes a grant to an organization that is not a 501(C)(3) they must use expenditure responsibility which includes the normal due diligence as explained above followed by:

1. Pre-grant inquiry performed by HCCF Staff to determine the organization's charitable intent and capacity to manage the grant
2. Written grant agreement between HCCF and the grantee
3. Grant is accounted for separately by the grantee
4. Regular reports (or in some cases receipts)
5. Report on 990, Schedule O

Process for Determining Supporting Organization Status

Supporting organizations receive public charity status from the IRS due to their particular relationship with another publicly supported charity or government unit. Based on that relationship, a supporting organization is defined as Type I, Type II, or Type III. Type III supporting organizations are further defined as functionally or non-functionally integrated. HCCF must exercise expenditure responsibility if it makes grants from a donor advised fund to any type of supporting organization that supports a public charity which is controlled directly or indirectly by the donor, donor advisor, or a related person. Expenditure responsibility is also required for grants to any non-functionally integrated Type III supporting organization.

HCCF will take the following steps to determine whether a grant recommendation from a Donor Advised Fund requires expenditure responsibility because the grantee is a supporting organization:

1. Verify that the organization is a public charity by checking its status in IRS Tax Exempt Organization Search (https://www.irs.gov/charities-non-profits/tax-exempt-organization-search) or Candid (GuideStar) or other recognized nonprofit verification tools.
2. Determine if the public charity is a supporting organization from one of the following sources:
    a. The IRS Business Master File (BMF) and the potential grantee's IRS determination letter, or
    b. A report from a third party that includes:
        i. the grantee's name, EIN, and public charity classification under §509(a)(1), (2), or (3);
        ii. a statement that the information is from the most currently available IRS monthly update to the BMF, along with the IRS BMF revision date;
        iii. the date and time of the grantmaker's search. The grantmaker must retain this report in electronic or hard-copy form.
3. <u>Determine the type of Supporting Organization</u> from one of the following sources:
    a. For Type I or Type II supporting organizations a written representation signed by an officer, director, or trustee of the grantee if both of the following are true:
        i. The representation describes the process used for selecting the grantee's officers, directors, or trustees and references the pertinent provisions of the grantee's organizing documents that establish the grantee's relationship to its supported organization.
        ii. The grantmaker collects and reviews copies of the grantee's governing documents. If the grantee's governing documents are not sufficient to establish the relationship, the grantmaker must also collect organizing documents from the supported organization.
    b. To determine whether a Type III supporting organization is <u>functionally integrated</u> HCCF will do the following:
        i. Obtain the grantee's written representation identifying the organization it supports.
        ii. Collect and review the grantee's organizing documents (and those of the supported organization if necessary).
        iii. Collect a written representation signed by an officer, director, or trustee of each supported organization stating that substantially all of its activities directly further the exempt purposes of the supported and, but for the involvement of the supporting organization, its activities are ones that normally would be engaged in by the supported organization.
    c. Alternatively, HCCF may rely on a reasoned written opinion of counsel of either the grantee or HCCF in making the determination that a supporting organization is a Type I, Type II, or functionally integrated Type III supporting organization.
4. Once HCCF has determined that a potential grantee is a supporting organization and is not a Type III non-functionally integrated supporting organization (for which expenditure responsibility is automatically required), HCCF, will determine whether the donor, donor advisor, or related parties control the supported organization.
    a. Control will be found to exist If any donor, donor advisor, or related persons may, by aggregating their votes or positions of authority, require a supported organization to make expenditure, or prevent a supported organization from making expenditure.
    b. HCCF will request certification from either the donor or advisor or directly from the supported organization that the donor, advisor, or related parties do not control the supported organization.