

The Knox County Foundation

Due Diligence for Grantmaking

(Revised 12/2021)

The purpose of the *Due Diligence Policy for Grantmaking* is to set forth the policies and procedures that guide the Knox County Foundation (The Foundation) Board of Directors in monitoring The Foundation's grantmaking to ensure compliance with applicable law and best practices of financial stewardship.

POLICIES

Eligibility

The Foundation will consider grant requests from:

- a) Nonprofit organizations that are recognized as exempt under Section 501(c)(3) of the IRS Code
- b) Governmental entities applying for grants that are exclusively for public and charitable purposes
- c) Religious organizations as defined in Section 170(b)(1)(A) of the IRS Code

Eligible organizations are further defined in Section 170(c)(1) and 170(c)(2) of the IRS Code.

Foundation staff will verify the charitable status and purpose through one or more of the methods below:

- a) Internal Revenue Service, Exempt Organizations Select Check:
<http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check>
- b) GuideStar's Charity Check
- c) Grantee's Internal Revenue Service determination letter or group ruling letter identifying grantee as included in the ruling
- d) Ohio Attorney General Charitable Registration:
<http://www.ohioattorneygeneral.gov/Services/Non-Profits/Charitable-Registration>
- e) Verification of church status for houses of worship and affiliated schools not found on the above lists

If an organization is a governmental entity, it must submit written confirmation that it is a unit of government. This confirmation might include, but is not limited to, a copy of the legislative act creating the entity or a letter from an authorized government official confirming the status.

If the above methods do not verify status, the organization's application may be disqualified.

Fiscal Sponsor

In exceptional circumstances, grants of up to \$10,000 may be made to other types of nonprofit organizations and to businesses when the grant is for a charitable purpose. Using expenditure responsibility as a guideline, the Foundation will carefully supervise any such grants to document the use of its funds solely for charitable purposes.

An organization that does not meet the eligible organization criteria must submit the grant request under the umbrella of a 501(c)(3) organization who has agreed to be the "Fiscal Sponsor"

for the grant request. A 501(c)(3) organization that agrees to serve as a Fiscal Sponsor on a grant request must comply with the following list of responsibilities.

Responsibilities of a fiscal sponsor include, but are not limited to:

1. Be the applicant of record.
2. Enter into a letter of agreement with the sponsored organization outlining and stipulating the terms of the relationship between fiscal sponsor and the sponsored organization.
3. Complete all required forms and enter into a contractual agreement with the Foundation for the receipt of the grant funds, and provide a copy of the letter of agreement entered into with the sponsored organization.
4. Receive the funds from the Foundation and create a separate financial account for the funds.
5. Maintain accurate and up-to-date records of the receipt of the funds in accordance with the grant agreement.
6. Disburse the funds to the sponsored entity as warranted and agreed to by the terms of the letter of agreement that exists between the fiscal sponsor and the sponsored organization.
7. Maintain an accurate and up-to-date accounting of expenditures and income for the project.
8. Submit a *Grant Follow-Up* report of overall expenses (providing receipts) and income for the project (all sources) to the Foundation within 6 months of receiving grant funds.
9. Reimburse the Foundation for any grant funds disbursed which are not spent according to the stipulations of the grant contract.
10. Undergo a fiscal review of financial records pertaining to the grant by the Foundation if such review is deemed appropriate.
11. List all fees charged by the fiscal sponsor to the grant seeker.

If the above criteria are not met, the organization's application may be disqualified.

CHARITABLE INTERESTS AND AREAS OF FUNDING

The Foundation's charitable interests are in the fields of education, youth services, recreation, health, arts and culture, social services, and civic and community development, and its funding supports projects and programs in Knox County, Ohio.

The Foundation seeks to maximize its impact in the community and has adopted the following strategic priorities to guide its grantmaking. Proposals that address one or more of these priorities have a greater likelihood of receiving funding. They are listed here in no particular order of importance.

- A pilot project which can serve as a model of excellence in the community
- A project which proposes a creative solution to an identified, but unmet need, in the community
- A project or program which encourages volunteer involvement
- A project that is a collaborative effort among nonprofit organizations in the community and will eliminate duplication of services
- A project which is likely to make a clear difference in the quality of life for a substantial number of people
- A project which promotes economic vitality in the community.

Certain projects and organizations are generally not eligible for funding, including but not limited to:

- Grants to individuals (other than scholarships, which are paid directly to accredited post-secondary institutions)
- Routine operating or payroll expenses
 - The Foundation will only consider grants for these expenses which 1) have demonstrated sustainability after Foundation funding ceases 2) are part of a new and innovative project/program/position that is outside of the organizational budget and 3) are from an organization that has been an operational organization for at least the previous 5 years.
- Projects/Programs that are restricted to members of a particular faith community or promote a specific religious doctrine (Applies to competitive grants only)
 - The Foundation will only consider competitive grant applications which 1) are open to the wider community 2) are not primarily for the benefit of its own members and 3) are not targeted to specifically increase membership or promote their doctrine
- Purchase of computers, unless proven to be specifically for the project/program
 - More information may be required for projects which ask for funding for computers or other equipment to determine they will not be used for general operations as well.
- Paying off existing obligations, debts or liabilities
- Travel (when it is the proposal's primary focus)
- Organizations that do not operate programs in Knox County, or for the benefit of Knox County residents
 - At least 75% of the individuals impacted by the requested grant project/program must be Knox County residents to be considered for funding.
- Political campaigns/contributions
- Capital improvements to privately held property, including property held by a religious organization

DUE DILIGENCE

“Due diligence” is the process of review and assessment of a potential grant that is the basis for accepting or declining the grant. The primary purpose of due diligence is to ensure that grants are made for purposes that are consistent with IRS regulations (i.e., charitable purposes) and that the organization receiving the grant is both legitimate and capable of carrying out the purpose for which the grant is intended.

All grants made by the Foundation shall be for charitable purposes. While there is no comprehensive legal definition of the term “charitable,” the IRS describes charitable purposes as follows: “The term ‘charitable’ is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion, advancement of education or science; erection of public buildings, monuments or works; lessening the burdens of government; lessening of neighborhood tensions; elimination of prejudice and discrimination; defense of human and civil rights secured by law; and combating community deterioration and juvenile delinquency.”

The IRS recognizes a far wider range of charitable organizations than is contained in the above definition, notably those in the areas of the arts and environmental groups. As a broad guideline, charitable activities generally are those that benefit whole classes or large groups of individuals or communities, involve no personal or private financial benefit, and do not involve lobbying or electioneering.

FUNDS AND PROCEDURES

Unrestricted and Field of Interest Funds:

1. Unrestricted and Field of Interest Funds must possess the following characteristics:
 - a. The fund must be owned and controlled by the sponsoring organization (Knox County Foundation).
 - b. Gifts to the fund are an irrevocable gift to create an endowment
 - i. Annual distributions of net income, calculated by the Foundation's spending policy, will be made as charitable grants in accordance with the Foundation's "Guidelines for Grantmaking".
 - c. Be subject to the same administrative and investment fees assigned to like funds within the Foundation.
 - d. In addition to the above characteristics, Field of Interest Funds also allow the donor to restrict the charitable grants to particular types of programs, populations served, and geographic areas, corresponding to the donors' passions and interests.
2. There are two categories of grants: Small Grants (\$10,000 and under) and Major Grants (over \$10,000).
 - a. Small Grants:
 - i. Small Grants have 4 cycles per year with deadlines on January 15th, April 15th, July 15th, and October 15th
 - ii. 20% of the Unrestricted available-to-spend pool is reserved for small grants.
 - b. Major Grants:
 - i. Major Grants have two grant cycles with deadlines of January 15th for February awarding and July 15th for August awarding. The Foundation encourages organizations applying for funding of \$50,000 or more to do so in the January round, as the majority of its large grant pool will be available for distribution at that time.
 - ii. 80% of the Unrestricted available-to-spend pool is reserved for large grants. If funds remain in the Major Grant pool after the July awarding, they may be used for Small Grant funding.

Unrestricted and Field of Interest Funds: Competitive Grants Process

1. Submission of the application and requested documentation.
2. All grant applications reviewed by the Foundation staff to ensure:
 - a. The application is complete and required documents are attached.
 - b. The grant request is clear.
 - c. The request meets eligibility requirements.
3. Foundation staff may contact the applicant (by phone, e-mail, or in person):
 - a. For further clarification

- b. To request more documentation.
 - c. To request a site visit (depending on the size and nature of the grant request)
 - d. To set up an interview with foundation staff and the Grants Committee
 - i. New major grant applicants (over \$10,000) and any applicant requesting more than \$50,000 typically require an interview.
4. The Foundation staff and Grants Committee will review each application and provide written recommendations for action by the Board. The review process for competitive grants uses the Foundation's grant review criteria to evaluate proposals.
 5. Grant recipients must maintain the grant funds in a separate fund, or adequately track funds, so that charitable funds are segregated from non-charitable funds.
 6. Organizations awarded competitive grants must submit a grant agreement and submit reports to the Foundation on the grant project and on the use of the grant funds.
 - a. Reports must be completed within 6 months upon receipt of funds or as soon as the funds are used (whichever is sooner)
 - b. Failure to complete the required reports may result in ineligibility for future Foundation grants.
 - c. The organization must request authorization from the Foundation's Grants Committee to use any funds for unbudgeted purposes.
 - d. Unspent grant funds in excess of the project amount must be returned to the Foundation.

Donor Advised Funds:

1. Donor-advised funds possess the following characteristics:
 - a. The funds must be separately identified with reference to the contribution of the donor or donors (ie: naming a fund after the donor or persons related to the donor)
 - b. The funds must be owned and controlled by the sponsoring organization (Knox County Foundation).
 - c. The donor or persons appointed by the donor expect to have the privilege of providing advice with respect to the fund's distributions.
 - d. The funds maintain a minimum balance of \$5,000.
 - e. They are subject to the same administrative and investment fees assigned to like funds within the Foundation.
2. The initial advisor(s) to the fund are those persons named in the fund agreement.
 - a. The advisors may submit to the Foundation suggestions with respect to distributions, which suggestions shall be advisory only and the Foundation shall not be bound to such suggestions.
 - b. The initial fund advisor(s) may name successor advisors. Successor advisors may do likewise.
 - c. The initial fund advisor(s) have the option to convert the remaining principal of the Fund into a Field of Interest, Designated, Unrestricted, or scholarship fund upon the death or incapacity of all fund advisors.
3. A fund is deemed inactive if:
 - a. The fund advisor dies or resigns or evidence of his or her incapacity is provided to the Foundation, and if no successor advisor has been named.
 - b. All named successor advisors are unable or unwilling to serve as such.

- c. No recommendations are made with respect to grants from the fund for a period of three years and, during such period, the advisor or successor advisor does not reply to the Foundation's attempts to contact them.
- d. If the fund becomes inactive, the Foundation will deem the advisory period to have ended and will initiate distributions from the fund in accordance with the provisions of the fund agreement.

Donor-Advised Grant Process

1. Grant recommendations from donor advisors shall be submitted on the approved Foundation form, or an equivalent containing the same information, and shall be signed by donor advisor(s). The forms shall contain language verifying that the donor is not making the recommended grant as a means of fulfilling a legally enforceable pledge (see definition in 8d) and that no tangible benefits, goods, or services of value will be received as a result of the grant.
2. Initial review of donor advised forms shall be conducted by Foundation staff as follows:
 - a. Verify that the recommended grant is consistent with the donor agreement;
 - b. Verify that the recommended grant is for a charitable purpose; and,
 - c. Verify a grantee organization's status as a 501(c)(3) organization, governmental entity, or religious organization.
3. After initial staff review, the recommendation is passed on for board approval:
 - a. Recommendations of \$2,500 or less are ratified by the Board of Directors at the next board meeting
 - b. Recommendations over \$2,500 are sent to the Board of Directors via email to vote to approve the grant
4. From time to time the Foundation staff may bring to a fund advisor's attention grant making opportunities in which the advisor may have an interest. The advisor is not obligated to recommend a grant for the identified program.
5. The Foundation 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(s) selected by the advisor.
 - i. If the donor advisor would like to grant a scholarship, they may do so by recommending a grant to the Foundation Scholarship Fund. The recipient of the scholarship will be selected by the Foundation's Board-Approved Scholarship Committee based on the criteria set by the donor advisor.
 - b. Grants of other similar payments, including expense reimbursements, to donors, advisors, and related parties.
 - c. Any grant for a purpose that is not charitable (see definition of charitable above).
 - d. Any grant to a private non-operating foundation.
 - e. Any grant to non-US organizations or governmental entities.
 - f. Grants to support political campaigns or political contributions.
 - g. Any grant that requires the exercise of expenditure responsibility. This includes grants to nonprofit organizations that are not public charities; grants to businesses; grants to any type of supporting organization that supports a public charity which is controlled directly or indirectly by the donor, donor advisor or related person.

6. All grant notifications shall be made by letter. The letter and/or grant agreement shall state the grant purpose.

Designated Funds and Their Distributions:

1. Designated Funds possess the following characteristics:
 - a. Gifts to the funds are irrevocable gifts to create an endowment
 - i. Annual distributions of net income, calculated by the Foundation's spending policy, will be made to the beneficiaries provided they maintain a 501(c)3 charitable status.
 - b. The fund must be owned and controlled by the sponsoring organization (Knox County Foundation).
 - c. Be subject to the same administrative and investment fees assigned to like funds within the Foundation.
2. Designated Funds may benefit only a public charity or unit of government. Funds may not be issued to a private foundation or to any organization which requires the exercise of expenditure responsibility.
3. The Foundation has variance power with regard to distributions.
 - a. Whenever the Foundation decides that any restriction or condition on the distribution of the Fund has become, in effect, unnecessary, incapable of fulfillment, or inconsistent with its charitable mission, it may order such modification of a fund's restrictions or conditions to more effectively do so.

Organization Endowment Funds:

1. Organizational Endowment Funds have the following characteristics:
 - a. Qualified Charitable organizations (section 501(c)(3), which are other than private foundations under section 509(a) of the Internal Revenue Code) may make irrevocable gifts to the Foundation for their public charitable purposes.
 - b. Contributed assets become the property of the Foundation as a matter of law and are so exempt from the possible application of federal and state securities laws.
 - c. Control over the investment or reinvestment of such property and the asset management of the funds are exercised exclusively by the Foundation.
2. The contributing organization may establish rules in regards to distribution of the endowment income and principal to the organization or other qualifying charitable organizations.

Scholarship Funds:

1. Scholarship funds have the following characteristics:
 - a. Gifts to the funds are irrevocable gifts to create either an endowed or non-endowed scholarship fund
 - i. Distributions of net income, which shall be no more than the Foundation's spending policy and/or the amount set by the advisor, will be made to the student's educational institution.
 - b. They are subject to the administrative and investment fees assigned to scholarship funds within the Foundation, unless otherwise specified by the fund document.
 - c. The funds must be owned and controlled by the sponsoring organization (Knox County Foundation).

- d. The scholarship grants must be used for qualified education expenses, including:
 - i. Tuition and fees for enrollment and attendance.
 - ii. Course-related expenses – fees, books, supplies, and equipment required of all students for courses of instruction.
 - iii. Room and board, travel, research, clerical assistance. Payments for expenses in this group are not exempt from income tax.
- e. The scholarship may have set criteria applicants must meet to qualify for the scholarship. The criteria must be based on criteria that are appropriate to accomplishing the underlying purpose of the grant as described in the agreement creating such Fund. However, scholarship recipients are to be selected on an objective and nondiscriminatory basis. The criteria may not be so specific as to create an excessively limited group of prospective recipients. Criteria includes, but is not limited to:
 - i. Prior academic performance;
 - ii. Performance of each applicant on tests designed to measure ability and aptitude for educational work;
 - iii. Recommendations from instructors of such applicant and any others who have knowledge of the applicant's capabilities;
 - iv. Additional biographical information regarding an applicant's career, academic and other relevant experiences, financial need; and
 - v. The scholarship selection committee's conclusions as to the applicant's motivation, character, ability, or potential.

Scholarship Grant Process:

1. Foundation staff will contact Knox County high school administrators as well as managers of other relevant community institutions to advertise the availability of the Foundation's Scholarships and to request that these administrators encourage potential awardees to submit applications.
2. Recipients of scholarships must be planning to attend, or attending, a fully-accredited, technical/trade school, two-year or four-year college or university, and enrolled as a full-time or part-time student. They also must be:
 - a. Secondary school students; or
 - b. Undergraduate or graduate students at a college or university who are pursuing studies or conducting research to meet the requirements for an academic or professional degree; or
 - c. Students who are attending, or will attend, an occupational training program of two-years or less at an accredited vocational school, technical school, community college, or junior college.
3. Each applicant must complete the Universal Application entirely and submit official transcripts as well as the FASFA Student Aid Report (if wanting consideration for need-based scholarships) in order to be considered for a scholarship.
4. The scholarship committees will make recommendations to the board for scholarships based on the criteria set forth by the donor and/or advisor.
 - a. Unless requested otherwise, scholarship recipients will be selected by the General Scholarship Committee or Vocational Scholarship Committee appointed by the

Board of Directors. On rare occasions, a scholarship fund may have a committee assigned directly to the fund.

- b. A fund's donors/advisors may not control the selection committee. This means that no combination of donors, persons appointed or designated by donors, and persons (a term that includes partnerships, corporations and trusts as well as individuals) related to them may constitute a majority of the committee, be given a veto power, be allowed to chair the committee or otherwise be permitted to control the committee's decisions.
 - c. Donor/advisors and related persons may provide advice with respect to the selection of grant or award recipients solely as members of a selection committee. This means that donors may not pre-screen applications and choose those to be referred to the committee. It also means that donors may not make a final selection from among candidates approved by the committee.
 - d. Every member of the selection committee must adhere to the relevant policies of the Foundation as they may be adopted and amended from time to time, including without limitation the Foundation's conflict of interest and confidentiality policy. Each member of any selection committee covered by this policy must disclose any personal knowledge of and relationship with any potential scholarship recipient under consideration and refrain from participation in the award process in a circumstance where he or she would derive, directly or indirectly, a private benefit if any potential grantee or grantees are selected over others.
5. Scholarship recipients must complete the scholarship follow-up information indicating acceptance of the scholarship and that they intend to attend college.
 6. The Foundation will pay scholarship grants directly to the educational institution for the use of the scholarship recipient for qualified education expenses. The Foundation will never pay scholarship grants directly to the recipient.
 7. If the student has enough financial aid from the educational institute and other scholarships, it is requested the funds be returned to the Foundation.
 8. Scholarship funds may also be created for pre-school or primary school student to attend an educational institution. Scholarship recipients must be approved by a selection committee, which is appointed by the board of directors.

Grant Guidelines

The grant guidelines for the Foundation represent the specific processes, requirements, and restrictions utilized to carry out its practice of awarding grants to applicant organizations.

1. Grants will be made to support projects and programs to eligible organizations (see *Eligibility* section) whose projects or programs directly benefit the citizens of Knox County.
2. Competitive grant requests are reviewed by the Foundation's Grants committee, which is made up of members of the Board of Directors and community members. Reviews and recommendations are then presented to the Board of Directors for ratification.
3. The Board of Directors must provide prior approval of all grants over \$10,000.

4. The Grants Committee may approve grants in any amount up to, and including \$10,000, without obtaining Board consent, provided that grants meet all criteria for competitive grants and is consistent with the mission and purpose of the Foundation.
 - a. The Grants Committee may receive grant applications and vote on funding amounts via e-mail on grants \$10,000 and less.
 - b. The Foundation staff, using the *Grant Evaluation* sends all grant applications and attachments to the Grants Committee.
 - c. Each member of the Grants Committee will vote for or against the recommended funding amount.
 - i. If more than 3 committee members vote against the recommended funding amount, the grant request will be tabled until the next Grants Committee Meeting so the grant may be discussed in person.
 - ii. There must be a majority vote in favor of a funding amount before the grant will be approved. If there is not a majority vote in favor, the grant will be denied.
5. Grants are awarded to projects/programs of organizations that demonstrate fiscal responsibility.
6. No grants will be made solely to specific individuals except for such purposes as scholarships (through a scholarship fund) or special programs administered through educational institutions or other sponsoring recipient organizations.
7. Multiple grants to the same organization are acceptable.
8. A multi-year grant request for the same project/program is typically not accepted. Multi-year grants must be approved by 2/3 majority of the Board of Directors and should be selected after a complete cycle of full and open competition.
 - a. Multi-year grants will only be considered if the following are met:
 - i. It will put the organization in a better position to attract new donors or leverage dollars through matching gifts or other programs;
 - ii. It will help the organization meet its own organizational goals; and
 - iii. The organization has proven sustainability after Foundation funding ceases;
 - b. Multi-year grants may not exceed a period of 5 years
 - c. The requested amount for each year may not exceed more than 25% of the current year's unrestricted available to spend balance.
9. No competitive grants will be made specifically for projects/programs that are restricted to members of a particular faith community or promote a specific religious doctrine.
10. No grants will be made for projects, programs, and/or equipment that were completed or acquired prior to grant funds being awarded.
11. Grantees or fiscal sponsors are required to submit final grant evaluation reports as outlined by the Foundation's policies and guidelines.

Approved by the Board on December 14, 2016

Revised to change name from "Community Foundation of Mount Vernon & Knox County" to "Knox County Foundation" January 1, 2019

Revised and approved by the Board on December 15, 2021