

Harrison County Community Foundation

GUIDELINES FOR ADMINISTRATION OF GRANTS TO NON-SECTION 501 (C)(3) TYPE ORGANIZATIONS THAT REQUIRE THE EXERCISE OF EXPENDITURE RESPONSIBILITY

A. “EXPENDITURE RESPONSIBILITY” requires the Foundation to exert all reasonable efforts and establish adequate procedures:

1. To see that the grant is spent only for the charitable purpose for which it is made,
2. To obtain full and complete reports from the grantee organization on how the funds are spent, and
3. To make full and detailed report on the expenditures to the IRS.

B. The exercise of expenditure responsibility may involve one or more of the following elements:

1. Conduct a pre-grant inquiry – the Foundation should conduct a limited inquiry concerning the potential grantee before the grant is made; this should deal with matters such as the identity, past history and experience, management, activities and practices of the grantee organization; this written inquiry should be complete enough to give reasonable assurance that the grantee will use the grant for its intended purposes.
2. Obtain certain commitments from the grantee – each grant must be made subject to a written commitment signed by the appropriate officer or director of the grantee organization, and include the following:
 - a. an agreement to repay any amount not used for the purposes of the grant
 - b. an agreement to submit a full and complete annual report to the Foundation on the manner in which the funds are spent and the progress made towards accomplishing the purposes of the grant
 - c. an agreement to keep records of receipts and expenditures and to make its books and records related to the grant available for inspection by the Foundation at all reasonable times, and
 - d. an agreement not to use the funds to influence legislation or the outcome of political elections, not to make grants to an individual for travel or study purposes unless other specific IRS requirements for grants to individuals are satisfied, or not to undertake any non-exempt activity that would cause the grant to be a taxable expenditure.
3. Commit to certain actions with respect to violations of these requirements – any diversion of grant funds, including income distributed from an endowment fund, found to be used outside of the grant commitment, will be treated on the Community Foundation’s books as a taxable expenditure, unless:

a. the Foundation takes all reasonable and appropriate steps to recover the grant funds, and

b. withholds any future payments to the grantee, until it has received sufficient written assurances that future diversions will not occur, including the institution of extraordinary precautions to prevent inappropriate use of the grant funds in the future.

C. The Foundation will be deemed by the IRS to have made a taxable expenditure:

1. Unless it only makes grants to organizations for which it has conducted a pre-grant inquiry;

2. When it has failed to obtain the necessary written commitments from the grantee organization that was subject to the pre-grant inquiry; and

3. If the Foundation fails to report on such activity to the IRS.

D. If the Organization and Foundation agree that the charitable purposes will include scholarships, all applicable policies of the Foundation Scholarship Policy must be followed and the Foundation Board of Directors or their assigned agents must approve:

1. The scholarship application and criteria,

2. The selection committee and process, and

3. The final recipient(s) of any award.