

## **GRANTMAKING GUIDELINES (September 20, 2023 edits)**

### The Principal Foundation

The Principal Foundation's grantmaking guidelines cover a range of issues that may arise when proposing and managing a Foundation grant. They include: grant eligibility; grant inquiries and submission of an invited application; management of grant funds; modification of grant terms; expenditure responsibility requirements, and conditions on the payment of grant funds.

### **Grantmaking Areas**

The Principal Foundation supports a wide range of initiatives to advance financial security for all. We have prioritized six program areas (food insecurity, housing insecurity, disaster relief, financial empowerment, social and cultural connections, and research) which we do not see as independent silos. Rather, we see them as levers that Foundation staff combine in creative ways to advance our primary objective – a world where financial security is accessible to all. It is at the intersections of these areas that we believe tangible, transformative change is possible.

### **Inquiries and Application Process**

Inquiries concerning an invitation to apply for a grant should be sent to [Foundation@principal.com](mailto:Foundation@principal.com). Foundation staff will be in touch if we are interested in learning more. Based on the final grant application, Foundation staff will determine whether to recommend a grant to the Board of Directors.

The Foundation also invites and considers a limited number of applications to support annual or capital campaigns and other projects outside of our core financial security focus (“Project Grants”). Prospective grantees invited to apply for a Project Grant should consult with Foundation staff about the appropriate content and timing of Project Grant applications and approvals.

### **Preparing an Invited Grant Application**

The Foundation's Grantmaking Guidelines provide detailed instructions on how to prepare and submit an invited application. The application should present information in a clear and concise way that enables the Foundation to assess the scope and significance of the proposed grant.

### **Grantmaking Guidelines**

The terms of a grant application, management of a grant, and requests for modifications of grant terms are governed by the Foundation's Grantmaking Guidelines. These guidelines set forth, among other matters:

- Grantees' fiduciary, reporting, and record-keeping responsibilities
- Application and reporting guidelines for non-US organizations
- Requirements relating to endowment grants
- Procedures associated with matching terms and payments
- Guidelines for requesting grant modifications

## **Foundation's Grantmaking**

The Foundation makes grants to organizations in the United States that have been determined by the IRS to be section 501(c)(3) charities. The Foundation also makes grants to organizations outside the United States that are equivalent to US public charities.

A non-US organization wishing to apply for a grant from the Foundation without a 501(c)(3) ruling from the IRS should be prepared to demonstrate its capacity to receive Foundation funds, either through determination by counsel that it is the equivalent of a US public charity or by other means of qualification. Alternatively, the Foundation, at its discretion, may exercise expenditure responsibility (see Additional Grant Considerations [\[LINK\]](#) below) to make restricted grants to organizations without such an equivalency determination. The Foundation does not make grants to individuals.

## **Types of Grants**

The Foundation makes spendable grants and, on occasion, the Foundation also awards endowment grants, some of which may also contain a matching condition.

### **SPENDABLE GRANTS**

Spendable grants are to be spent according to the proposal, schedule, budget, and conditions specified in the Foundation's grant agreement or, as applicable, grant agreement.

### **ENDOWMENT GRANTS**

Endowment grants establish institutional funds that are subject to specific spending limitations as indicated in the grant agreement and proposal and governed by applicable state law.

The Foundation will only consider requests for endowment funds from institutions that can demonstrate the financial capacity to manage the funds on an ongoing basis. Recipients of an endowment grant are to invest and manage the funds prudently and in perpetuity, with the income used to support the program or position designated by the Foundation. When requesting an endowment grant, an organization must provide documentation (set forth in the Endowment Grants [\[LINK\]](#) section below) that demonstrates its capacity to invest and manage endowment funds.

### **MATCHING GRANTS**

Both spendable and endowment grants may be subject to a matching requirement. Only newly received gifts of cash or securities, in hand, valued at the time of transfer, and designated for the Foundation-supported project, qualify as matching contributions. Pledges do not qualify. If the Foundation awards a matching grant, it will pay matching funds in installment amounts specified in the Foundation's grant agreement.

To request a release or payment of matching funds, a grantee should submit a matching funds request along with documentation to evidence receipt of the matching contributions.

Only newly received gifts of cash or securities—in hand, valued at the time of transfer, and designated for the Foundation-supported project—can qualify as matching contributions. Pledges do not qualify.

To evidence contributions of \$5,000 or more, the Foundation requires:

- Copies of all canceled checks, bank statements showing wire transfers or receipt of credit card payments, and brokerage statements or signed documentation verifying the transfer of securities and their market value.
- Clear evidence that a donor's intent is to meet the Foundation's match, either by the donor's indication on the check, a letter from the donor to the grantee demonstrating such intent or, in the case of an unrestricted donation, a designation from the grantee's governing board or a senior official that the donation has been appropriately restricted to meet the Foundation's matching requirements.

To evidence contributions of less than \$5,000, the Foundation requires:

- A list of all donations, including the name of the donor, and the date, amount, and form of the donation (e.g., check, wire transfer, credit card, security, etc.), with a signed statement from a senior authorized official restricting all such donations to the Foundation match. Where amounts are less than \$5,000, the Foundation does not also require canceled checks, evidence of wire or credit card payment, or separate documentation verifying security transfers.

### **Managing Grant Funds**

The Foundation's grant agreement specifies the terms of the grant, including the use of grant funds, reporting schedule, and the need to adhere to Foundation grantmaking guidelines.

### **FIDUCIARY DUTIES**

All grant funds should be managed prudently and should be used for the purposes set forth in the grant agreement and approved proposal. The Foundation considers interest and investment income earned on grants to be part and parcel of the award. Grantees will set forth in their grant proposals their institutional guidelines for investing grant funds, including their investment strategy and methods for calculating and allocating interest and investment income to the grant. Grantees are expected to invest grant funds according to the terms set forth in the Foundation's grant agreement.

Organizations awarded endowment grants must also adhere to their state's [Uniform Prudent Management of Institutional Funds Act](#) (UPMIFA) statute in the investment, management, and spending of such grant funds. UPMIFA statutes generally provide that, subject to the intent of the donor, an organization awarded endowment funds may expend or accumulate as much of the endowment fund as the organization determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. An organization must receive the written approval of the donor if it wishes to modify or release a restriction on the management, investment, or purpose of an endowment grant. The Foundation rarely approves the spending of endowment principal below its historic dollar value.

### **USE OF GRANT FUNDS**

Grant funds must only be used for the purposes, over the timeframe, and in the manner set forth in the grant agreement and approved grant application.

Awarded grant funds may not be expended on project costs incurred prior to the grant start date or, without the Foundation's prior written approval, after the grant end date. Grantees are also expected to maintain controls to see that use of grant funds complies with the rules and guidance promulgated by the [United States Office of Foreign Assets Control](#).

## ENDOWMENT GRANTS

Proposals for endowment funds should include the following items:

1. a copy of the Investment Policy Statement (“IPS”), which must include the: (a) Asset Allocation Policy; (b) Spending Policy; (c) Rebalancing Policy; (d) Conflict of Interest Policy; and (e) roles and responsibilities of the board, the investment committee, staff, and consultants/advisors;
2. a description of the decision-making process for making changes to the IPS, and, if applicable, how and by whom managers are sourced and evaluated;
3. the current roster of investment managers;
4. the current members of the investment committee and the name of any investment consultant or advisor;
5. a summary of the actions taken and a list of attendees at the last four meetings of the investment committee, or the minutes of those meetings;
6. the current asset allocation;
7. investment performance for the past one, three, five, and ten years;
8. copies of the two most recent audited financial statements; and
9. should a grant be awarded, a commitment to provide, at the conclusion of each of the subsequent three fiscal years, the following: (a) a summary of the actions taken by the investment committee during the fiscal year and a list of the members who attended each meeting; and (b) a report on investment performance for the past one, three, five, and ten years.

## REPORTING AND RECORDKEEPING

The Foundation requires timely and informative interim and final grant reporting. Grantees should consult the Foundation's Grant Reporting Guidelines [LINK/PDF] when preparing narrative and financial reports. Narrative and financial reports should be submitted together through the Foundation's grantee portal on or before the due dates specified in the Foundation's grant agreement. The Foundation may suspend grant activities and require the return of funds for delinquent or unsatisfactory reporting, and will consider reporting history in the awarding of future grants.

## NARRATIVE AND FINANCIAL REPORTING

Narrative reports should describe the activities undertaken and the use of grant funds, and evaluate the progress made toward achieving the purposes of the grant during the reporting

period.

Financial reports should be specific to the grant and include interest earned. Grantees are required to use the same budget categories used in the grant proposal, making it possible for line-by-line comparison of the approved budget and actual expenditures.

## REPORTING ON INTEREST AND INCOME

For each reporting period, grantees should give an account of how they spent or allocated earned investment income within the approved budget categories, or provide a written explanation if no income was earned on awarded funds.

## RECORDKEEPING

Grantees are required to retain accounting records, detailing all receipts and expenditures, for a minimum of three years following submission of the final grant report. Organizations receiving expenditure responsibility grants are required to keep records for four years. The Foundation reserves the right to conduct on- and offsite audits of records related to the use of grant funds. In cases where grantee spending is not consistent with the Foundation's award, the Foundation reserves the right to request the return of awarded funds, disallow expenditures, or take other remedial actions.

## Changes in Grant Terms

Grant modification requests considered by the Foundation include: (1) extension of the grant period to permit additional time to complete supported activities or raise matching funds; (2) reallocation of funds to permit spending in a manner different than that described in the original budget; (3) rollover of funds from an older Foundation grant into a newer grant given for the same purpose; (4) extension of a matching period; and (5) transfer of grant funds from the original grantee to another organization. Grantees must obtain advance written approval from the Foundation for these and other material changes. More significant changes, such as repurposing a grant or modifying the terms of a matching grant, require the approval of the Foundation's Board of Directors. Such requests are not considered routine.

Grantees should also promptly inform the Foundation in writing of significant changes in project staffing, organizational leadership, scheduling, or budgeting, when such changes occur during the grant period. The Foundation reserves the right to suspend the use of grant funds if the change is considered material to the success of the grant. Please see Grant Modifications [[LINK](#)] for more information.

## Additional Grant Considerations

Particular procedures apply for grants involving the exercise of expenditure responsibility.

## EXPENDITURE RESPONSIBILITY

In order to make a grant to an organization that does not have a public charity determination from the IRS, the Foundation may elect to exercise "expenditure responsibility" in accordance with IRS rules. Under the expenditure responsibility rules, the Foundation is required to establish procedures for assuring that grant funds are spent solely for the charitable purposes

intended, and must receive reports from the grantee, and make reports to the IRS, about the grant expenditures. If the Foundation elects to exercise expenditure responsibility, the grantee will sign an expenditure responsibility agreement at the time of the award that sets forth spending and reporting requirements. The agreement commits the grantee to spending grant funds only for the specified charitable purposes, maintaining grant funds in a separate account for charitable purposes, and reporting on how the funds have been spent.

### **Conditional Payments**

A grant award from the Foundation may be conditioned on the satisfaction of specific requirements. These requirements can include: execution of an expenditure responsibility agreement; determination by counsel that an organization is the equivalent of a US public charity; or other events. Where conditions are established, the Foundation will not make payment on the award unless and until all conditions have been met. The Foundation reserves the right to rescind a conditional grant when conditions have not been satisfied in a timely manner.

### **Grant Modifications**

The Foundation recognizes that circumstances may change over the life of a grant, suggesting a need to modify a grant timeframe or other terms. When this occurs, a grantee is required to notify the Foundation and seek advance written approval to modify the grant terms.

#### **TYPES OF GRANT MODIFICATIONS**

Requests for grant modifications considered by the Foundation include:

1. extension of the grant period to permit additional time to complete supported activities;
2. extension of the matching period to permit additional time to satisfy a matching condition;
3. reallocation of funds from one budget category to another;
4. rollover of funds from an older Foundation grant into a newer grant awarded for the same purpose; and
5. transfer of grant funds from the original grantee to another organization.

Please note: Foundation staff do not regularly consider requests to alter the basic purpose of a grant or that seek to modify endowment grants or matching conditions. Grantees should consult with program staff about any such requests, as they may require Board review and approval.

#### **STEPS FOR REQUESTING MODIFICATIONS**

A grantee that seeks to modify a grant should first send a brief email to program staff summarizing the proposed modification. Program staff will review the initial request to determine whether to invite a formal modification request through the grantee portal for further consideration and action.

If a formal modification request is invited, key grant contacts will receive an email notification asking them to log in to the grantee portal to submit information about the request. Grantees will be directed to submit the information through the Modification form in the grantee portal. Grantees will be prompted to provide a detailed description of the proposed modification, setting forth the reasons that funds cannot be spent as originally proposed and the planned activities for the remainder of the grant. Depending on the nature of the proposed modification,

grantees may be asked to rebudget future reporting periods. For grant transfer requests, grantees will also need to upload (1) a letter from the transferring organization requesting and/or agreeing to the transfer, and (2) a letter from the receiving organization agreeing to accept the transfer and abide by the grant terms. Further instruction for completing modification requests are available in the grantee portal.

The grantee will receive an email notification indicating whether or not the requested modification has been approved.

## NOTICE OF SIGNIFICANT ORGANIZATIONAL/PROJECT CHANGES

Grantees are expected to inform the Foundation promptly of any significant changes in project staffing, organizational leadership, scheduling, or budgeting, when such changes occur during the grant period.

## RESERVATION OF RIGHTS

The Foundation reserves the right to suspend the use of grant funds if organizational or grant changes are considered material to the success of the grant.

## **Matching Funds Payment Request**

For grants with a matching component, the Foundation's grant agreement sets forth the terms for payments, including the matching ratio, the timeframe for raising matching funds, and the payment installment amounts. The Foundation will issue payments upon receipt of satisfactory evidence that a match, or portion of a match as specified in the grant agreement, has been made.

### Request for Matching Payments

To request a release or payment of matching funds, a grantee should submit matching funds request report and upload the documentation required to evidence receipt of the matching contributions.

Only newly received gifts of cash or securities—in hand, valued at the time of transfer, and designated for the Foundation-supported project—can qualify as matching contributions. Pledges do not qualify.

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