

Glossary of Nonprofit & Community Foundation Terms

501(c)(3)

Section of the Internal Revenue Code that designates an organization as charitable and tax-exempt. Organizations qualifying under this section include religious, educational, charitable, amateur athletic, scientific or literary groups, organizations testing for public safety or organizations involved in prevention of cruelty to children or animals. Most organizations seeking foundation or corporate contributions secure a Section 501(c)(3) classification from the Internal Revenue Service (IRS). Note: The tax code sets forth a list of sections-501(c)(4-26)-to identify other nonprofit organizations whose function is not solely charitable (e.g., professional or veterans organizations, chambers of commerce, fraternal societies, etc.).

509(a)

Section of the tax code that defines public charities (as opposed to private foundations). A 501(c)(3) organization also must have a 509(a) designation to further define the agency as a public charity. (See Public Support Test.)

Administrative Fund

May be either nonpermanent and "spent" for the operations of TFEC or may be endowed with only the income from the fund used for operations.

Affinity Group

A separate and independent coalition of grantmaking institutions or individuals associated with such institutions that shares information or provides professional development and networking opportunities to individual grantmakers with a shared interest in a particular subject or funding area.

Agency Fund

Established by a nonprofit organization (agency) for the benefit of the nonprofit organization where the profits are distributed annually to the nonprofit organization to support operations, programs, etc.

Annual Report

A voluntary report published by a foundation or corporation describing its grant activities. It may be a simple, typed document listing the year's grants or an elaborately detailed publication. A growing number of foundations and corporations use an annual report as an effective means of informing the community about their contributions activities, policies and guidelines. (The annual contributions report is not to be confused with a corporation's annual report to the stockholders.)

Area of Interest Fund

A fund held by a community foundation that is used for a specific, donor designated, charitable purpose such as education or health research.

Articles of Incorporation

A document filed with the secretary of state or other appropriate state office by persons establishing a corporation. This is the first legal step in forming a nonprofit corporation.

Assets

Cash, stocks, bonds, real estate or other holdings of a foundation. Generally, assets are invested and the income is used to make grants. (See Payout Requirement.)

Bequest

A sum of money made available upon the donor's death as indicated in their will.

Brick and Mortar

An informal term indicating grants for buildings or construction projects.

Building Campaign

A drive to raise funds for construction or renovation of buildings.

Bylaws

Rules governing the operation of a nonprofit corporation. Bylaws often provide the methods for the selection of directors, the creation of committees and the conduct of meetings.

Capital Campaign

Also referred to as a Capital Development Campaign, a capital campaign is an organized drive to collect and accumulate substantial funds to finance major needs of an organization such as a building or major repair project.

Capital Grant

A grant that is used for building costs, equipment or materials.

Challenge Grant

A grant that is made on the condition that other monies must be secured, either on a matching basis or via some other formula, usually within a specified period of time, with the objective of stimulating giving from additional sources.

Charitable Lead Trust

A Charitable Lead Trust (CLT) pays the trust income to a charity first for a specified period, with the principal reverting to the donor or going to other person(s) at the end of the period.

Charitable Remainder Trust

A gift plan that provides income to one or more beneficiaries for their lifetimes, a fixed term of not more than 20 years, or a combination of the two. Assets, usually cash, securities or real estate, are transferred to a trust which pays income to the beneficiaries for the term of the trust. When the trust term ends, the remainder in the trust passes to a nonprofit organization. Can also be established as a as a Charitable Remainder Unitrust (CRUT) with a variable payout.

Charity

In its traditional legal meaning, the word “charity” encompasses religion, education, assistance to the government, promotion of health, relief of poverty or distress and other purposes that benefit the community. Nonprofit organizations that are organized and operated to further one of these purposes generally will be recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (see 501(c)(3)) and will be eligible to receive tax-deductible charitable gifts.

Community Foundation

A community foundation is a tax-exempt, nonprofit, autonomous, publicly supported, philanthropic institution composed primarily of permanent funds established by many separate donors of the long-term diverse, charitable benefit of the residents of a defined geographic area. Typically, a community foundation serves an area no larger than a state. Community foundations provide an array of services to donors who wish to establish endowed funds without incurring the administrative and legal costs of starting independent foundations. There are more than 500 community foundations across the United States today. The Cleveland Foundation was the first community foundation established in 1914.

Corporate Foundation

A corporate (company-sponsored) foundation is a private foundation that derives its grantmaking funds primarily from the contributions of a profit-making business. The company-sponsored foundation often maintains close ties with the donor company, but it is a separate, legal organization, sometimes with its own endowment, and is subject to the same rules and regulations as other private foundations. There are more than 2,000 corporate foundations in the United States holding some \$11 billion in assets. (See Corporate Giving Program.)

Corporate Giving Program

A corporate giving (direct giving) program is a grantmaking program established and administered within a profit-making company. Gifts or grants go directly to charitable organizations from the corporation. Corporate foundations/giving programs do not have a separate endowment; their expense is planned as part of the company’s annual budgeting process and usually is funded with pre-tax income. The Foundation Center has identified more than 700 corporate foundations/giving programs in the United States; however, it is believed that several thousand are in operation.

Decline

Also referred to as Denial, a decline is the refusal or rejection of a grant request. Some declination letters explain why the grant was not made, but many do not.

Demonstration Grant

A grant made to establish an innovative project or program that will serve as a model, if successful, and may be replicated by others.

Discretionary Fund

Grant fund distributed at the discretion of one or more trustees, which usually do not require prior approval by the full board of directors. The governing board can delegate discretionary

authority to staff. At TFEC discretionary dollars are made up of Area of Interest Funds and Unrestricted Funds.

Disqualified Person: (Private Foundation)

Substantial contributors to a private foundation, foundation managers, certain public officials, family members of disqualified persons and corporations and partnerships in which disqualified persons hold significant interests. The law bars most financial transactions between disqualified persons and foundations. (See Self-Dealing.)

Disqualified Person: (Public Charity)

As applied to public charities, the term disqualified person includes (1) organization managers, (2) and any other person who, within the past five years, was in a position to exercise substantial influence over the affairs of the organization, (3) family members of the above, and (4) businesses they control. Paying excessive benefits to a disqualified person will result in the imposition of penalty excise taxes on that person, and, under some circumstances, on the charity's board of directors (See Intermediate Sanctions.)

Donee

See Grantee.

Donor

The individual or organization that makes a grant.

Donor or Committee Advised Fund

A fund held by a community foundation where the donor, or a committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation's governing body must be free to accept or reject the recommendations.

Endowment

The principal amount of gifts and bequests that are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose.

Excise Tax

The annual tax of 1 or 2 percent of net investment income that must be paid to the IRS by private foundations.

Expenditure Responsibility

When a private foundation makes a grant to an organization that is not classified by the IRS as tax-exempt under Section 501(c)(3) and as a public charity according to Section 509(a), it is required by law to ensure that the funds are spent for charitable purposes and not for private gain or political activities. Such grants require a pre-grant inquiry and a detailed, written agreement. Special reports on the status of the grant must be filed with the IRS, and the grantees must be listed on the foundation's IRS Form 990-PF.

Family Foundation

“Family foundation” is not a legal term, and therefore, it has no precise definition. Yet, approximately two-thirds of the estimated 44,000 private foundations in this country are believed to be family managed. The Council on Foundations defines a family foundation as a foundation whose funds are derived from members of a single family. At least one family member must continue to serve as an officer or board member of the foundation, and as the donor, they or their relatives play a significant role in governing and/or managing the foundation throughout its life. Most family foundations are run by family members who serve as trustees or directors on a voluntary basis-receiving no compensation; in many cases, second- and third-generation descendants of the original donors manage the foundation. Most family foundations concentrate their giving locally, in their communities.

Field of Interest Fund

See Area of Interest Fund.

Financial Report

An accounting statement detailing financial data, including income from all sources, expenses, assets and liabilities. A financial report may also be an itemized accounting that shows how grant funds were used by a grantee organization. Most foundations require a financial report from grantees.

Form 990/Form 990-PF

The IRS forms filed annually by public charities and private foundations respectively. The letters PF stand for private foundation. The IRS uses this form to assess compliance with the Internal Revenue Code. Both forms list organization assets, receipts, expenditures and compensation of officers. Form 990-PF includes a list of grants made during the year by private foundations.

Funder

A donor, corporation, community foundation, etc. that provides a grant to a nonprofit organization for projects and/or programs.

Funding Cycle

A chronological pattern of proposal review, decision-making and applicant notification. Some donor organizations make grants at set intervals (quarterly, semi-annually, etc.), while others operate under an annual cycle.

Giving Pattern

The overall picture of the types of projects and programs that a donor has supported historically. The past record may include areas of interest, geographic locations, dollar amount of funding or kinds of organizations supported.

Grant

An award of funds to an organization or individual to undertake charitable activities.

Grant Monitoring

The ongoing assessment of the progress of the activities funded by a donor, with the objective of determining if the terms and conditions of the grant are being met and if the goal of the grant is likely to be achieved.

Grantee

The individual or organization that receives a grant.

Grantor

See Donor or Funder.

Grantmaking

The giving of funds for a specific purpose.

Grant Evaluation

A review of the results of a grant, with the emphasis upon whether or not the grant achieved its desired objective.

Grassroots Fundraising

Efforts to raise money from individuals or groups from the local community on a broad basis. Usually an organization does grassroots fundraising within its own constituency-people who live in the neighborhood served or clients of the agency's services. Grassroots fundraising activities include membership drives, raffles, bake sales, auctions, dances and a range of other activities. Foundation managers often feel that successful grassroots fundraising indicates that an organization has substantial community support.

Guidelines

A statement of a foundation's goals, priorities, criteria and procedures for applying for a grant.

In-kind Contribution

A donation of goods or services rather than cash or appreciated property.

Independent Foundation

These private foundations are usually founded by one individual, often by bequest. They are occasionally termed "non-operating" because they do not run their own programs. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent foundations, such as the Ford Foundation, are no longer governed by members of the original donor's family but are run by boards made up of community, business and academic leaders. Private foundations make grants to other tax-exempt organizations to carry out their charitable purposes. Private foundations must make charitable expenditures of approximately 5 percent of the market value of their assets each year. Although exempt from federal income tax, private foundations must pay a yearly excise tax of 1 or 2 percent of their net investment income. The Rockefeller Foundation and the John D. and Catherine T. MacArthur Foundation are two examples of well-known "independent" private foundations.

Intermediate Sanctions

Penalty taxes applied to disqualified persons of public charities (see Disqualified Person) that receive an excessive benefit from financial transactions with the charity. An excessive benefit may result from overcompensation for services or from other transactions such as charging excessive rent on property rented to the charity. Unlike private foundations, public charities are not barred from engaging in financial transactions with disqualified persons as long as the transaction is fair to the charity. Penalty taxes also may apply to organization managers, such as the charity's board, that knowingly approve an excess benefit transaction.

Internal Revenue Service (IRS)

The federal agency with responsibility for regulating foundations and their activities. On-line at www.irs.gov.

Jeopardy Investment

An investment that risks the foundation's ability to carry out its exempt purposes. Although certain types of investments are subject to careful examination, no single type is automatically a jeopardy investment. Generally, a jeopardy investment is found to be made when a foundation's managers have failed to exercise ordinary business care and prudence. The result of a jeopardy investment may be penalty taxes imposed upon a foundation and its managers. (See Program Related Investment.)

Letter of Intent

A donor's letter or brief statement indicating intention to make a specific gift.

Leverage

A method of grantmaking practiced by some foundations. Leverage occurs when a small amount of money is given with the express purpose of attracting funding from other sources or of providing the organization with the tools it needs to raise other kinds of funds. Sometimes known as the "multiplier effect."

Limited-Purpose Foundation

A type of foundation that restricts its giving to one or very few areas of interest, such as higher education or medical care.

Loaned Executives

Corporate executives who work for nonprofit organizations for a limited period of time while continuing to be paid by their permanent employers.

Lobbying

Efforts to influence legislation by influencing the opinion of legislators, legislative staff and government administrators directly involved in drafting legislative proposals. The Internal Revenue Code sets limits on lobbying by organizations that are exempt from tax under Section 501(c)(3). Public charities (see Public Charity) may lobby as long as lobbying does not become a substantial part of their activities. Private foundations (see Private Foundations) generally may not lobby except in limited circumstances such as on issues affecting their tax-exempt status or

the deductibility of gifts to them. Conducting nonpartisan analysis and research and disseminating the results to the public generally is not lobbying for purposes of these restrictions.

Matching Gifts Program

A grant or contributions program that will match employees' or directors' gifts made to qualifying educational, arts and cultural, health or other organizations. Specific guidelines are established by each employer or foundation. (Some foundations also use this program for their trustees.)

Matching Grant

A grant or gift made with the specification that the amount donated must be matched on a one-for-one basis or according to some other prescribed formula.

Nonpermanent Fund

A type of fund where both principal and income may be granted to a nonprofit organization.

Operating Foundation

Also called private operating foundations, operating foundations are private foundations that use the bulk of their income to provide charitable services or to run charitable programs of their own. They make few, if any, grants to outside organizations. To qualify as an operating foundation, specific rules, in addition to the applicable rules for private foundations, must be followed. The Carnegie Endowment for International Peace and the Getty Trust are examples of operating foundations.

Operating Support

A contribution given to cover an organization's day-to-day, ongoing expenses, such as salaries, utilities, office supplies, etc.

Payout Requirement

The minimum amount that a private foundation is required to expend for charitable purposes (includes grants and necessary and reasonable administrative expenses). In general, a private foundation must pay out annually approximately 5 percent of the average market value of its assets.

Philanthropy

Philanthropy is defined in different ways. The origin of the word philanthropy is Greek and means love for mankind. Today, philanthropy includes the concept of voluntary giving by an individual or group to promote the common good. Philanthropy also commonly refers to grants of money given by foundations to nonprofit organizations. Philanthropy addresses the contribution of an individual or group to other organizations that in turn work for the causes of poverty or social problems-improving the quality of life for all citizens. Philanthropic giving supports a variety of activities, including research, health, education, arts and culture, as well as alleviating poverty.

Planned Gift

Any gift given for any amount and for any purpose whether for current or deferred use, which requires the assistance of a professional staff person, a qualified volunteer or the donor's advisors to complete. In addition, it includes any gift that is carefully considered by a donor in light of estate or financial plans.

Pledge

A promise to make future contributions to an organization. For example, some donors make multiyear pledges promising to grant a specific amount of money each year.

Permanent Fund

See Endowment.

Post-Grant Evaluation

A review of the results of a grant, with the emphasis upon whether or not the grant achieved its desired objective.

Preliminary Proposal

A brief draft of a grant proposal used to learn if there is sufficient interest to warrant submitting a proposal.

Private Foundation

A nongovernmental, nonprofit organization with funds (usually from a single source, such as an individual, family or corporation) and program managed by its own trustees or directors, established to maintain or aid social, educational, religious or other charitable activities serving the common welfare, primarily through grantmaking. U.S. private foundations are tax-exempt under Section 501(c)(3) of the Internal Revenue Code and are classified by the IRS as a private foundation as defined in the code.

Program Grant

A grant that is used to fund a particular program usually including salaries or personnel related costs.

Program Officer

Also referred to as a corporate affairs officer, program associate, public affairs officer or community affairs officer, a program officer is a staff member of a foundation or corporate giving program who may do some or all of the following: recommend policy, review grant requests, manage the budget and process applications for the board of directors or contributions committee.

Program-Related Investment

A loan or other investment made by a private foundation to a profit-making or nonprofit organization for a project related to the foundation's stated purpose and interests.

Restricted Fund

A type of fund in which the fund beneficiaries are specified by the donors.

Scholarship Fund

A type of fund that provides grants in the form of scholarships in which the criteria are established by the donor and the selection process jointly managed by the donor and TFEC. Scholarship funds may be either permanent (only a portion of the income is granted and principal grows in perpetuity), or nonpermanent (both principal and income may be granted).

Self-Dealing

Entering into a financial transaction that includes paying excessive benefits to a “disqualified person.” This includes organization staff, board members, family members of staff and board members, and the businesses they control.

Site Visit

Visiting an organization that has received a grant or is being considered for one. The purpose is to observe the organization, meet with staff, and get to know the program that will be or is being funded.

Tax-Exempt Organization

Organizations that do not have to pay state and/or federal income taxes.

Trust

A legal device used to set aside the money or property of one person for the benefit of one or more persons or organizations.

Unrestricted Fund

A fund that is not specifically designated to particular uses by the donor, or for which restrictions have expired or been removed.