

Donors Forum

Strengthening Illinois philanthropy and the nonprofit community

Glossary of Terms in Philanthropy

Perhaps because the work of the philanthropic sector touches on a broad and varied scope of human activity, those who work in philanthropy seek to unify in part under a common language. Culled from the halls of academia and government, or invented along the way, many of the terms used in philanthropy are meant to convey succinct ideas or actions, but can seem like babble to the uninitiated.

One of the goals of Donors Forum is to educate about philanthropy, and this mission extends to the words we use in doing our jobs. In publishing this glossary, Donors Forum presents definitions for common terms used within our field. These terms and definitions were gathered from a variety of sources in philanthropy and in the nonprofit sector. We hope, in doing so, to make philanthropy a little more familiar to all who engage in it.

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.)

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.

AGI (Adjusted Gross Income)

AGI includes income from salary and wages, investments, and capital gains.

Annual Report

A voluntary report published by a foundation or corporation describing its grant activities. Annual reports range from simple, typed documents listing the year's grants to elaborately detailed publications. 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.)

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.

Asset Based Community Development

Different from "needs-based" assessment, ABCD aims to identify existing community strengths and build upon them.

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.)

Beneficiary

In philanthropic terms, the donee or grantee receiving funds from a foundation or corporate giving program is the beneficiary, although society benefits as well.

Bequest

A sum of money made available upon the donor's death.

"Bricks and Mortar"

An informal term indicating grants for buildings or construction projects.

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.

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.

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.

Committed Funds

A portion of a donor's budget that has already been pledged for future allocation.

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 for 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 is the oldest; the New York Community Trust is the largest.

Community Fund

An organized community program which makes annual appeals to the general public for funds that are usually not retained in an endowment but are instead used for the ongoing operational support of local agencies. (See also Federated Fund.)

Contributions Committee

A corporate group organized to make grant decisions usually with the guidance of a corporate foundation or contributions administrator. Typical responsibilities include setting and interpreting policy, approving an annual budget and reviewing grant requests.

Cooperative Venture

A joint effort between or among two or more grantmakers. Cooperative venture partners may share in funding responsibilities or contribute information and technical resources.

Corporate Contributions

A general term referring to charitable contributions by a corporation. Usually this term is used to describe cash contribu-

tions only, but may also include other items, such as the value of loaned executives, products and services.

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 legally separate 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 also 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 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 giving programs in the United States; however, it is believed that several thousand are in operation.

Declining Grant

A multi-year grant that becomes smaller each year, in the expectation that the recipient organization will increase its fundraising from other sources.

Demonstration Grant

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

Designated Funds

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

Discretionary Funds

Grant funds 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.

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 also Self-Dealing.)

Disqualified Person (Public Charity)

As applied to public charities, the term disqualified person includes (1) organization managers, (2) 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.

Distribution Committee

The committee responsible for making grant decisions. For community foundations, the distribution committee is intended to be broadly representative of the community served by the foundation.

Donee

See Grantee.

Donor

See Grantor.

Donors Advised Fund

A fund held by a community foundation, public charity or other entity, where the donor or a committee appointed by the donor recommends eligible charitable recipients from the fund.

Donor Designated Fund

A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. These funds are sometimes established by a transfer of assets by a public charity

to a fund designated for its own benefit, in which case they may be known as grantee endowments. The community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

Employee Matching Grant

A contribution to a charitable organization by an employee that is matched by a similar contribution from his or her employer. (See also Matching Gifts Program.)

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 accumulated to achieve a designated purpose.

E-Philanthropy

This term describes the variety of methods of giving using the internet. Many sites have been developed that accept donations in addition to providing information regarding nonprofit groups. Many e-commerce sites (e.g., charity malls) incorporate fundraising efforts by donating a percentage of their proceeds to charity. Such sites can serve as a clearinghouse for large numbers of organizations and for information that would otherwise be difficult to access.

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. Family foundations tend to concentrate their giving locally.

Federated Fund

A centralized campaign whereby one organization raises money for its member agencies. The United Way campaign is an example. (See also Community Fund.)

Flow-through Funds

Contributions to a foundation that are used primarily for direct grantmaking, rather than for endowing the foundation permanently. Most corporate foundations depend on these funds each year rather than on income produced from endowment funds.

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 these forms 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.

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.

General Operating Support

A grant made to further the general purpose or work of an organization, rather than for a specific purpose or project; also called an unrestricted grant (sometimes also referred to as operating support).

General Purpose Foundation

An independent private foundation that awards grants in many different fields of interest.

Giving Circle

Also called philanthropic social clubs, these autonomous groups come together to give as a group, meeting regularly, sharing information, and making joint giving decisions. A guide to starting a giving circle can be found at: www.newenglandgiving.org.

Grant

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

Grantee

Also referred to as a grantseeker, the individual or organization that receives a grant.

Grantor

Also referred to as a grantmaker, the individual or organization that makes a grant.

Grantee Financial Report

A report detailing how grant funds were used by an organization. Many grantmakers require this kind of report from grantees. A financial report generally includes a listing of all expenditures from grant funds as well as an overall organizational financial report covering revenue and expenses, assets and liabilities.

Grassroots Fundraising

Efforts to raise money from individuals or groups from the local community on a broad basis. Usually an organization's own constituents—people who live in the neighborhood served or clients of the agency's services—are the sources of these funds. Grassroots fundraising activities include membership drives, raffles, auctions, benefits and a range of other activities.



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. The Rockefeller Foundation and the John D. and Catherine T. MacArthur Foundation are two examples of well-known "independent" private foundations.

Internal Revenue Service (IRS)

The federal agency responsible for regulating foundations and their activities (on-line at www.irs.gov).

Joint Funding

A grant project supported by more than one donor, each of whom may provide monies for a specific component of the overall project or who may contribute to a common pool of funds.

Letter of Inquiry

Also referred to as a Letter of Intent, this is a brief letter outlining an organization's activities and a request for funding sent to a prospective donor to determine if there is sufficient interest to warrant submitting a full proposal. This saves the time of the prospective donor and the time and resources of the prospective applicant. (See also Preliminary Proposal.)

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.

Matching Gifts Program/Matching Grant

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 staff and trustees.)

Operating Foundation

Also called private operating foundations, operating foundations are endowed private foundations that use the bulk of their income to provide charitable services or to run charitable programs of their own (such as a school or camp). 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.

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 five percent of the average market value of its assets.

Philanthropy

Philanthropy can be 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 and corporate giving programs 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.



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.

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

Sometimes referred to as a concept paper, a brief draft of a grant proposal used to learn if there is sufficient interest to warrant submitting a proposal. (See also Letter of Intent.)

Pre-tax Net Income

A corporation's annual net income before it has paid taxes. The Internal Revenue Service currently allows corporations to deduct charitable contributions as much as 10 percent of their pretax net income.

Private Foundation

A non-governmental, nonprofit organization with funds (usually from a single source, such as an individual, family or corporation) and programs 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 Officer

A staff member of a foundation who reviews grant proposals and processes applications for the board of trustees. Only a small percentage of foundations have program officers.

Program-Related Investment

A loan or other investment made by a private foundation to a profitmaking or nonprofit organization for a project related to the foundation's stated purpose and interests. Program-related investments are an exception to the general rule barring jeopardy investments. Often, program-related investments are made from a revolving fund; the foundation generally expects to receive its money back with limited, or below-market, interest, which then will provide additional funds for loans to other

organizations. A program-related investment may involve loan guarantees, purchases of stock or other kinds of financial support.

Proposal

A written application, often accompanied by supporting documents, submitted to a foundation or corporate giving program in requesting a grant. Most foundations and corporations do not use printed application forms but instead require written proposals; others prefer preliminary letters of inquiry prior to a formal proposal. Consult a grantor's published guidelines for specific details.

Public Charity

A nonprofit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and that receives its financial support from a broad segment of the general public. Religious, educational and medical institutions are deemed to be public charities. Other organizations exempt under Section 501(c)(3) must pass a public support test to be considered public charities, or must be formed to benefit an organization that is a public charity (see Supporting Organization). Charitable organizations that are not public charities are private foundations and are subject to more stringent regulatory and reporting requirements (see Private Foundation).

Public Foundation

A nonprofit organization that receives at least one-third of its annual income from the general public (including government agencies and foundations). Public foundations may make grants or engage in charitable activities. Public foundations, along with community foundations, are recognized as public charities by the IRS. Although they may provide direct charitable services to the public as other nonprofits do, their primary focus is on grantmaking.

Public Support Test

There are two public support tests, both of which are designed to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a)(1) or 170(b)(1)(A)(vi) for the sections of the Internal Revenue Code where it is found, is for charities like community foundations that mainly



rely on gifts, grants and contributions. To be automatically classed as a public charity under this test, organizations must show that they normally receive at least one-third of their support from the general public (including government agencies and foundations). However, an organization that fails the automatic test may still qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics, such as a broad-based board, that make it sufficiently "public." The second test, sometimes referred to as the section 509(a)(2) test, applies to charities, such as symphony orchestras or theater groups, that get a substantial part of their income from the sale of services that further their mission, such as the sale of tickets to performances. These charities must pass a one-third/one-third test. That is, they must demonstrate that their sales and contributions normally add up to at least one-third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

Qualifying Distributions

Expenditures of a private foundation made to satisfy its annual payout requirement. These can include grants, reasonable administrative expenses, set asides, loans, program-related investments and amounts paid to acquire assets used directly in carrying out tax-exempt purposes.

Restricted Funds

Income or assets that are restricted in their use, in the types of organizations that may receive grants from these funds, or in the procedures used to make grants from such funds.

RFP

An acronym for Request For Proposal. When grantmakers create new program areas or initiatives, an RFP is occasionally used to solicit applications from nonprofit organizations working within the project specifications.

Seed Money

A grant or contribution used to start a new project or organization.

Self-Dealing

A private foundation is generally prohibited from entering into any financial transaction with disqualified persons (see

Disqualified Person). The few exceptions to this rule include paying reasonable compensation to a disqualified person for services that are necessary to fulfilling the foundation's charitable purposes. Violations results in an initial penalty tax equal to five percent of the amount involved, payable by the self-dealer.

Set-Asides

Funds set aside by a foundation for a specific purpose or project that are counted as qualifying distributions toward the foundation's annual payout requirement. Amounts for the project must be paid within five years of the first set-aside.

Site Visit

Visiting a donee organization at its office location or area of operation and/or meeting with its staff or directors or with recipients of its services.

Social Enterprise

A nonprofit venture that combines the passion of a social mission with the discipline, innovation and determination commonly associated with for-profit businesses. This includes, but is not limited to, new revenue generating ventures, for-profit subsidiaries and other alternatives to traditional funding sources.

Social Entrepreneurs

Individuals who engage in social enterprise and draw upon the best thinking in both the business and nonprofit worlds in order to advance their social agenda.

Social Venture Fund

Charitable funds whose donors invest their expertise as well as their money, providing support and requiring accountability of nonprofit organizations just as venture capitalists do in business enterprises. (See also Venture Philanthropy.)

Socially Responsible Investing

Also referred to as ethical investing, this is the practice of aligning a foundation's investment policies with its mission. This may include making program-related investments and refraining from investing in corporations with products or policies inconsistent with the foundation's values.



Sponsorship

Affiliation with an existing nonprofit organization for the purpose of receiving grants. Grantseekers may either apply for federal tax-exempt status or affiliate with a nonprofit sponsor.

Supporting Organization

A supporting organization is a charity that is not required to meet the public support test because it supports a public charity. To be a supporting organization, a charity must meet one of three complex legal tests that assure, at a minimum, that the organization being supported has some influence over the actions of the supporting organization. Although a supporting organization may be formed to benefit any type of public charity, the use of this form is particularly common in connection with community foundations. Supporting organizations are distinguishable from donor-advised funds because they are distinct legal entities.

Tax-Exempt Organizations

Organizations that do not have to pay state and/or federal income taxes. Organizations other than churches seeking recognition of their tax-exempt status under Section 501(c)(3) of the Internal Revenue Code must apply to the Internal Revenue Service. These organizations may also be exempt from sales and local property taxes.

Technical Assistance

Operational or management assistance given to a nonprofit organization. It can include fundraising assistance, budgeting and financial planning, program planning, legal advice, marketing and other aids to management. Assistance may be offered directly by a foundation or corporate staff member or in the form of a grant to pay for the services of an outside consultant.

Tipping

The situation that occurs when a gift or grant is made that is large enough to significantly alter the grantee's funding base and cause it to fail the public support test. Such a gift or grant results in "tipping" or conversion from public charity to private foundation status.

Trust

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

Trustee

The person(s) or institutions responsible for the administration of a trust.

Unrestricted Funds

Normally found at community foundations, an unrestricted fund is one that is not specifically designated to particular uses by the donor, or for which restrictions have expired or been removed.

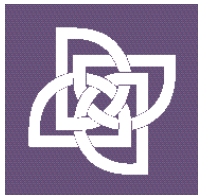
Venture Philanthropy

The philanthropic application of venture capital principles and practices. Venture Philanthropy assists nonprofit organizations in the planning, launch and management of new programs or social purpose enterprises. In addition to grants, Venture Philanthropists provide networking, management advice and an array of other supports to organizations within a given portfolio of charitable investments. (See also Social Venture Fund.)

Virtual Foundation

Refers to the transition from grantmaking through mail and face-to-face meetings to grantmaking by email and internet transfers. Such a foundation may exist only on the internet and be capable of transferring money from philanthropists to organizations globally.





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