Glossary

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. 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 Section 501(c)(3) organization also must have a 509(a) designation to further define it as a public charity.

Accrual Basis of Accounting: Calls for recording revenue in the period in which it is earned and recording expenses in the period in which they are incurred. The effect of events on the organization is recognized as services are rendered or consumed rather than when cash is received or paid.

Action Teams: The Community Foundations Leadership Team conducts its work through member-driven "action teams." These groups are formed to take on short-term projects as well as long-term initiatives. The Leadership Team and/or groups of members establish them in order to advance the priority needs of the field. Currently, there are three action teams: National Standards, Legal and Regulatory, and Field Engagement.

Administrative Fund: See *Operating Fund.*

AdNet: Advancement Network. The professional group of development and donor services professionals in the community foundation field.

Affiliate Fund: A collection of assets designated to benefit a specific community, generally a geographic service area that operates under the guidance of, or in accordance with a formal agreement with, a community foundation serving a larger or a separate area. In practice, community foundations generally provide, from within their existing organizational infrastructure, the 'back office' services for these funds. Affiliate funds may be donor advised or field of interest funds at the host community foundation or they may be separately incorporated charitable organizations that either are structured as supporting organizations to the parent community foundation or that have a written agreement with the host community foundation for the provision of services.

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 Endowment Fund: Established by a nonprofit agency for the benefit of the nonprofit agency. The community foundation regularly distributes the annual net earnings back to the agency for purposes established by the agency. Also called *Organization Endowment Fund*.

Annual Report: A report published by a foundation or corporation describing its mission, leadership, programs, services, activities, and accomplishments. In the case of community foundations, it also describes its grantmaking and donor services and includes a listing of contributors, selected policies and guidelines, and an audited financial statement.

Annualized Return: The compounded average annual return for periods greater than one year.

Appreciated Assets: Those assets that have increased in value since they were acquired. Such assets are usually subject to capital gains tax if sold.

Appreciated Securities (gift of): Gifts of securities include publicly traded stocks, mutual funds, treasury bills, notes, and closely held stock. The gift of appreciated securities held for at least one year allows the donor a charitable deduction for the market value of the gift, avoiding payment of capital gains tax.

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

Asset Allocation: The distribution of a pool of assets among various asset classes including, but not limited to, domestic and foreign bonds, cash, real estate, venture capital, etc.

Audit: An independent examination of the accounting records and other evidence relating to a business to support the expression of an impartial expert opinion about the reliability of the financial statements.

Balance Sheet (Statement of Financial Position): A financial statement that shows the financial position of the organization at a particular date. It consists of a list of assets, liabilities, and fund balances.

Bargain Sale: The sale of securities, real estate, tangible personal property, or other assets to a charity for less than their current value. The donor receives a charitable deduction for the difference between the appraised value and bargain price. The charity sells the property and retains the difference between the price it paid and the price for which it sold.

Basis Point: One hundredth of a percentage point (0.01%) used frequently to measure changes in yields or fixed income securities, because they often change by very small amounts.

Benchmark Portfolio: A portfolio against which the investment performance of an asset pool can be compared for the purpose of determining investment skill.

Bequest: A gift by will to a specific recipient. A charitable bequest is a transfer at death by will to a nonprofit organization for charitable purposes.

Bricks 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 and other physical structures.

Bylaws: Rules governing the operation of a nonprofit corporation, developed according to state law requirements. Bylaws often provide the methods for selecting directors, creating committees, and conducting 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.

Cash: The most common type of gift made to most organizations. Includes cash, checks, and credit cards.

Cash Basis of Accounting: Revenue is recorded when received in cash and expenses are recorded in the period in which cash payment is made.

CEONet: CEO Network. The professional group of CEOs and executive directors in the community foundation field.

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 Class: (from IRS Publication 3833). The group of individuals that may properly receive assistance from a charitable organization is called a charitable class. A charitable class must be large or indefinite enough that providing aid to members of the class benefits the community as a whole. Because of this requirement, a tax-exempt charitable organization cannot target and limit its assistance to specific individuals, such as a few persons injured in a particular fire. Similarly, donors cannot earmark contributions to a charitable organization for a particular individual or family.

Charitable Gift Annuity: A gift of cash or securities in exchange for the promise of lifetime income, immediate (CGA) or deferred (DCGA). A charitable gift annuity is a contract between the donor and charity that is part charitable gift and part purchase of an annuity. The total assets of the charity back the payments.

Charitable Intent: The philanthropic benefits or purposes assigned by the donor when making a gift.

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. If it is established by will, it is known as a Testamentary Charitable Lead Trust (TCLT). Also called *Income Trust*.

Charitable Purpose: Charitable purposes include the relief of poverty, the advancement of education or religion, the promotion of health, governmental or municipal purposes, and other purposes the achievement of which is beneficial to the community. Organizations set up and operated exclusively for charitable purposes, and which serve a public rather than a private interest, are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and are eligible recipients of tax-deductible charitable contributions.

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 that pays income to the beneficiaries for the term of the trust. When the trust term ends, the remainder in the trust passes to the charity. Can be established as a Charitable Remainder Annuity Trust (CRAT) with a fixed payout or as a Charitable Remainder Unitrust (CRUT) with a variable payout. Can be established during the donor’s lifetime (CRT) or by will (TCRT).

Chart of Accounts: Listing of the account titles and account numbers being used by an organization.

CommA: Communications Network. The professional group of community foundation communications professionals.

Community Foundation: A tax-exempt, nonprofit, autonomous, publicly supported, nonsectarian philanthropic institution with a long-term goal of building permanent, named component funds established by many separate donors to carry out their charitable interests and for the broad-based charitable interest of and for the benefit of residents of a defined geographic area.

Community Foundations Leadership Team (CFLT): Formerly known as the Committee on Community Foundations, this group represents the governing body for advancing the community foundation field. CFLT members include representatives of action teams, community foundation trustees and a core group elected by the field.

Component Fund: An individual fund considered by the Internal Revenue Service (IRS) to be part of the exempt assets of a foundation. The foundation's governing board must have total control over all assets of a component fund.

Consumer Price Index (CPI): A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics.

Corporate Form: A community foundation that is incorporated as a nonprofit corporation. Investment management of assets held is the responsibility of the board of the foundation. A community foundation may include both a corporate entity and component trusts. Also see *Trust Form*.

Corporate Foundation: Also referred to as a company-sponsored foundation, this type of private foundation receives its funding from the for-profit company whose name it bears but is legally an independent entity. Corporations may establish foundations with initial endowments, make periodic contributions—generally based on a percentage of the company's profit—to the foundation, or combine both methods to provide the foundation's resources.

Council on Foundations (COF): The international membership association (www.cof.org) that serves the public good by promoting knowledge and growth and enhancing responsible and effective philanthropy. Its more than 2,000 members consist of community foundations, corporate foundations and giving programs, private and family foundations, public foundations, and a new category known as emerging foundations.

Custodian: A bank or other financial institution that has custody of stock certificates and other assets of a mutual fund, individual, corporation, or institution. Custodians hold assets in safekeeping, collect income on securities in custody, settle transactions, invest cash overnight, handle corporate accounting, and provide accounting reports.

Cy Pres: Also called the cy pres doctrine. Cy pres is the power vested in a court to vary the terms of a charitable trust if the charitable purpose specified by the donor becomes unlawful, impracticable, or impossible to achieve. Courts applying cy pres must direct the funds to a new purpose or beneficiary that is as near as possible to the donor's original intent. The variance power possessed by community foundations is modeled on cy pres, but may be exercised without the need to seek court approval.

Deferred Gift: A methods of giving that requires the wait of a year or more before being able to use the gift assets.

Deferred Gift with Income Benefit: A gift of assets that a foundation can use in the future, from which the donor, or a person or entity designated by the donor receive income in the interim.

Deferred Gift with No Income Benefit: A gift that a foundation can use in the future, from which neither the foundation nor the donor receive any income in the interim.

Designated Fund: A type of restricted fund held by a community foundation in which the donor specifies the fund beneficiaries.

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, (4) businesses they control. In addition, investment advisors to assets of donor advised funds are disqualified persons and, if the charity has supporting organizations, disqualified persons of the supporting organizations are considered disqualified persons of the supported charity. Paying excessive benefits to a disqualified person results in the imposition of penalty excise taxes on that person and, under some circumstances, on the charity's board of directors.

Donors and donor advisors are disqualified with regard to transactions with the relevant donor advised fund. Many of these transactions are completely prohibited.

Also see *Intermediate Sanctions*.

Diversification, investment: An attempt to minimize risk by distributing assets among various asset classes or among managers within the same asset class who have different investment styles.

Dividend: A distribution of cash by a corporation to its stockholders.

Donee: See *Grantee*.

Donor: The individual or organization that makes a grant or contribution. Also called a *Grantor*.

Donor Advised Fund: Generally, a fund held by a community foundation where the donor, or a person or 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. The specific legal definition may be found at www.cof.org/ppa.

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. 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. See *Variance Power*.

Due Diligence: In grantmaking, this speaks to the practices one applies to reviewing grant requests prior to approving them. It generally includes establishing the charitable status of the grantee, the charitable purpose of the grant, and the financial and organizational capacity of the organization to undertake the proposed activities.

Endowment: A fund in which the principle is kept intact, and only a certain amount of earnings are available for other purposes. Donors may require that the principal remain intact in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose. With a permanent endowment the principle is often invested along with some retained earnings to retain the fund's historic value.

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) it is required by law to ensure that the funds are spent for charitable purposes and not for private gain or political activities. Special reports on the status of the grant must be filed with the IRS. Certain grants from donor advised funds also require this process.

Family Foundation: "Family foundation" is not a legal term, and therefore, it has no precise definition. Yet, approximately two-thirds of the estimated 40,000 private foundations in this country are believed to be family managed. The Council on Foundations defines a family foundation as a private 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. Members decide themselves if they wish to categorize their private foundation as a family or independent foundation. 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.

FAOG: Fiscal and Administrative Officers Group. The professional group of fiscal and administrative officers in the community foundation field.

Fiduciary Duty (responsibility): The legal responsibility for investing money or acting wisely on behalf of a beneficiary. More broadly, for foundation boards such responsibility must be legally exercised on behalf of the donors and the governing documents of the foundation. See *Due Diligence*.

Field of Interest Fund: A fund held by a community foundation that is used for a specific charitable purpose such as education or health research.

Financial Accounting Standards Board (FASB): This board issues Statements of Financial Accounting Standards that represent authoritative expressions of generally accepted accounting principles.

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 donee organization. Most foundations require a financial report from grantees.

Equities: Also called equity securities or corporate stocks. An instrument that signifies an ownership position, or equity, in a corporation, and represents a claim on its proportionate share in the corporation's assets and profits. An equity holder's claim is subordinated to creditor's claims, and the equity holder will only enjoy distributions from earnings after these higher priority claims are satisfied

Financial Statements: Main source of financial information to persons outside the organization. These convey to management and to interested outsiders a concise picture of the profitability and financial position of the organization.

Fixed Income Security: A security that pays a fixed rate of interest. This usually refers to government, corporate, mortgage and municipal bonds.

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.

Fund: An entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations. Community foundation assets are held in many named component funds established by donors or the foundation for specific or unrestricted purposes.

Fund Accounting: Economic entity is defined to be the fund. Each fund has its own chart of accounts and every transaction is accounted for at the fund level.

Fund Balance: Using the analogy to "owner's equity," the fund balance represents the resources invested by the community.

Funding Cycle: A chronological pattern of proposal review, decision making, and applicant notification. Some community foundations make grants at set intervals, others on an annual cycle.

Future Interest Property: The donor gives remainder interest in a personal residence, vacation home, or farm, subject to the right to live in the home (or work the farm) for the lifetime of the donor and/or another person. Also known as *Retained Life Estate*.

Generally Accepted Accounting Principles (GAAP): The accounting standards and concepts used in the measurement of financial activities and the preparation of financial statements.

Gift, Charitable: *Merriam-Webster's Collegiate Dictionary,* Tenth Edition, defines a gift as "something voluntarily transferred by one person to another without compensation." A charitable gift is a gift of money or other property to a qualified organization for charitable purposes for which the donor does not reasonably anticipate benefit from the donee in return. The IRS's Code Section 170, the income tax charitable contribution provision, and numerous court cases further define "charitable gift."

Gift, Historical Value: The monetary value of a charitable gift at the time it is given.

Gift, Real Value: The monetary value of a charitable gift after adjustment for inflation and appreciation since the gift was completed.

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, and kinds of organizations supported.

Grant: The award of funds to an organization or individual to undertake charitable activities.

Grantee: The individual or organization that receives a grant.

Grantor: See *Donor*.

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 other projects. Foundation managers often feel that successful grassroots fundraising indicates that an organization has substantial community support.

Growth-Oriented Securities: In general two basic categories of securities are owned: 1) companies with consistent above average historical and prospective earnings growth, and 2) those expected to generate above average near term earnings increases based upon company, industry, or economic factors. Managers in this style are willing to pay above market multiples for the superior growth rate and profitability they anticipate. Hence P/E ratios tend to be greater than the market and dividend yields tend to be less than the S&P 500.

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

Hedging: A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of gain or loss. Selling short, put options, and futures transactions may be used for hedging purposes.

Income, Earned: The interest and dividends returned from an investment. See *Return, Rate of*.

Income Statement: Statement of Activities or Statement of Revenues, Expenses, and Changes in Fund Balances. A financial statement showing the results of operating for an organization by matching revenue and related expenses for a particular accounting period.

Income Trust: See *Charitable Lead Trust*.

Independent Foundation: One individual usually establishes these private foundations, 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.

In-Kind Contribution: A donation of goods or services rather than of cash or appreciated property. See also *Technical Assistance*.

Intermediate Sanctions: Penalty taxes applied to disqualified persons of public charities 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. Also see *Disqualified Person*.

Internal Revenue Service (IRS) : The federal agency (www.irs.gov) with responsibility for regulating foundations and their activities.

Investment Counsel: A counselor or consultant whose principal business is advising, analyzing, or supervising investments managed by others. Differs from an investment manager who is responsible for the investments in a portfolio.

Investment Manager: An advisor who manages the investments of others. In general a manager with more than $25 million must register with the Securities and Exchange Commission (SEC).

Jeopardy Investment: An investment that is found to have jeopardized a foundation's purposes. The result of a jeopardy investment may be penalty taxes imposed on a foundation and its managers. While certain types of investments are subject to careful examination, no single type is automatically a jeopardy investment. Generally, a jeopardy investment is made when a foundation's managers have "failed to exercise ordinary business care and prudence."

Legal and Regulatory Action Team: This action team's charge is to "identify legislative initiatives that would protect and benefit the field, review and analyze all key legal, legislative, and regulatory issues that arise and that are of importance to the community foundation field, and provide direction and recommendations to the Leadership Team, the Council board, and other Council committees as appropriate." It consists of experts from around the country who have given their time pro bono on national legislative and regulatory issues affecting the field.

Letter of Inquiry: A brief outline of 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. Also referred to as a *Preliminary Proposal*.

Letter of Intent: A grantor'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.”

Life Insurance (as wealth replacement): To secure the interests of family members, the donor of a life income plan (such as a charitable remainder trust) purchases life insurance to replace the value of an asset that has been donated to charity by using the tax savings resulting from the charitable deduction. Placing the insurance policy in a separate trust permits the proceeds to pass to heirs outside the taxable estate.

Life Insurance (gift of): Life insurance is easy to give and to receive. The donor must make the organization both *owner* and *beneficiary* of the insurance policy for the IRS to regard the transaction as a charitable gift.

Limited-Purpose Foundation: One that restricts its giving to one or very few areas of interest, such as higher education or medical care.

Liquidity: Refers to the ease and quickness of converting assets to cash. Also called marketability.

Listserv (e-discussion list): An electronic discussion group. The Council on Foundations’ CFS department offers 10 listservs, one for each of the community foundation functional areas: CEONet, AdNet, CommA, FAOG, ProNet, Aff-able, SuppNet, ScholarNet, HRNet and CFBoardNet.

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 may lobby as long as lobbying does not become a substantial part of their activities.

Market-Oriented Equities: In this equity style, managers do not have a strong preference for either value or growth stocks. Their portfolio characteristics tend to adhere closer to market averages over a business cycle.

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. Each employer or foundation establishes specific guidelines. Some foundations also use such a program for their trustees.

Matching Grant: A grant or gift made with the specification that the amount donated must be matched one for one or according to some other prescribed formula.

Mutual Fund: A fund managed by an investment company that raises money from individuals and invests it in stocks, bonds, options, commodities, or money market securities. An investment in a mutual fund is represented by shares or units. The value of the units depends on the value of assets owned by the mutual fund, less expenses incurred by the fund.

National Committee on Planned Giving (NCPG): A professional association of gift planners.

National Standards for U.S. Community Foundations: Approved in September 2000, the National Standards are the baseline requirements for the governance, structure, and activities of community foundations. Adoption of these standards throughout the field will provide a level of consistency that will help the field build capacity, distinguish itself, and market nationally and regionally.

National Taxonomy of Exempt Entities (NTEE): Classification system for nonprofit organizations recognized as tax exempt under the IRS Code. It facilitates collecting and analyzing data by type of organization and by activity, especially helpful in tracking grants and grantees.

Net Asset Value (NAV): The current fair market value of each unit in a mutual fund, as determined by the total value of the fund's investments plus other assets, less liabilities. This total value is divided by the number of units outstanding, to arrive at NAV per unit.

Net of Fee: The rate of return reported on a portfolio after the removal of a money manager's fee.

Non-Component Fund: An individual fund, that, because of restrictions by the donor, shared interests by the community foundation and other beneficiaries, or election of the foundation, is not included as part of its publicly supported status and is, therefore, treated as separate by both the foundation and the IRS.

Non-Endowed Fund: Monies are received and distributed with little or no dollars remaining with the foundation. An example is the YWCA Capital Campaign Fund.

Operating Contribution: A contribution given to cover an organization's day-to-day, ongoing expenses, such as salaries, utilities, office supplies, etc. Also referred to as *Operating Support*.

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, the organization must follow specific rules in addition to the applicable rules for private foundations. The Carnegie Endowment for International Peace and the Getty Trust are examples of operating foundations.

Operating Fund: May be either nonpermanent and used for the operations of the foundation or may be endowed with only the income from the fund used for operations.

Operating Support: See *Operating Contribution*.

Optimal Allocation: A predetermined asset mix that best suits the needs and requirements of an organization.

Organization Endowment Fund: See *Agency Endowment Fund*.

Outright Gift: Methods of giving that permit the immediate use of the gift assets.

Pass-Through Foundation: Foundations that receive monies and make distributions to donees, with little or no principal remaining with the foundation.

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.

Performance Measurement: The analysis of the returns earned on a pool of assets. Performance measurement uses accounting data as its inputs to generate rates of return.

Personal Property: Art, jewelry, furs, "collectibles," and other tangible objects owned by individuals.

Philanthropy: Philanthropy is defined in different ways. The word is of Greek origin, meaning "love for humankind." Today, philanthropy includes the concept of voluntary giving by individuals or by groups to promote the common good. It also commonly refers to grants of money given by foundations to nonprofit organizations. Philanthropy addresses contributions by individuals or groups to other organizations that in turn work to alleviate the causes of poverty or social problems—improving the quality of life for all citizens. Philanthropic giving also supports a variety of activities in the areas of research, health, education, arts and culture, and environmental issues.

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." (Robert F. Sharpe & Co.)

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.

Pooled Income Fund: Donors, each of whom contributes cash or property to a pooled fund, each (and/or other named beneficiaries) receives a pro rata share of net income earned by the fund. The donor also receives an income tax deduction for the present value of the remainder interest at the time of the gift. When each beneficiary dies, his or her share is removed from the fund and distributed to the charity.

Post-Grant Evaluation: A review of the results of a grant, with the emphasis on whether the grant achieved its desired objective.

Preliminary Proposal: See *Letter of Inquiry*.

Price/Earnings Ratio: A corporation's current stock price divided by its earnings per share.

Principal Fund Balance: Corpus of the fund. Endowed funds have a principal fund balance and an income fund balance. Usually contains gifts plus realized and unrealized gains/losses. (Referred to as Non-Spendable Balance in some foundations.)

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. Private foundation also means an organization that is tax exempt under Section 501(c)(3) of the tax code and is classified by the IRS as a private foundation as defined in the code.

Private Inurement: In general, it is the flow of money away from a nonprofit organization's public purposes to the private benefit of persons with a significant relationship with an organization, see *IntermediateSsanctions*.

Program Officer: Also referred to as a corporate affairs officer, program associate, public affairs officer, or community affairs officer, this staff member of a foundation or corporate giving program 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 (PRI): A loan or other investment made by a grantmaking organization to a profit-making or nonprofit organization for a project related to the foundation's stated purpose and interests. 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.

Prohibited Transaction: One of a number of activities in which certain private foundations and/or foundation representatives may not engage. See *Disqualified Person*.

Project Fund: In looking at the needs of the community, the foundation board determines there is an unmet charitable need. By board resolution, a fund is established to meet that need. Donors contribute to the fund. Over time, the fund is expended (rather than endowed) to meet the community need.

ProNet: Program Network. The professional group for community foundation grantmaking and program staff.

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. Charitable organizations that are not public charities are private foundations and are subject to more stringent regulatory and reporting requirements. Also see *Private Foundation; Public Support Test; Supporting Organization*.

Public Foundation: The IRS recognizes public foundations, along with community foundations, as public charities. 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 such as 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 still may 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: 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.

Real Property: Real estate, land, home (residence or vacation), farm.

Realized gains/losses: Increases/decreases in investments attributable to the sale of investments.

Regional Associations of Grantmakers: Nonprofit membership associations of foundations and related organizations that share a common goal: to strengthen philanthropy in a distinct geographic region (e.g. a city, state, or multistate area). RAG members include private or independent foundations, community foundations, and corporate foundations and giving programs. In addition, some RAGs include in their membership related organizations, such as financial advisor firms or nonprofit grantseeking groups.

Restricted Funds: Assets or income that is restricted in its use, in the types of organizations that may receive grants from it or in the procedures used to make grants from such funds.

Retained Life Estate: The donor gives remainder interest in a personal residence, vacation home, or farm, subject to the right to live in the home (or work the farm) for the lifetime of the donor and/or another person. Also known as *Future Interest Property*.

Retirement Plan Assets: Assets held in qualified retirement plans including employers' pension or profit-sharing plans or salary deferral plans such as 401(k) and 403(b).

Return, Rate of: The rate of return on an asset is a measure of investment performance and should be determined on a total-return basis, including realized and unrealized changes in market value in addition to earned income (e.g., dividend and interest income). Managers may report returns before or after management advisory fees, but returns are always reported after brokerage and trading costs.

Return, Real: A real return is the nominal or actual return adjusted for inflation as measured by the Consumer Price Index (CPI).

Return, Total: A measure of an investment's return that includes both realized and unrealized changes in market value plus earned income. See *Income, Earned*.

Risk: The uncertainty associated with the future value of an investment in an asset or portfolio of assets.

Scholarship Fund: Established to provide support for individuals who are pursuing some training or educational opportunity. Grants may be awarded to the individuals or they may be awarded to educational institutions.

Securities, Closely Held: Stocks and bonds not traded on public exchanges, often owned by family members or a few individuals. Also referred to as *Securities, Privately Held*.

Securities, Privately Held: See *Securities, Closely Held*.

Securities, Publicly Traded: Stocks and bonds traded on public exchanges.

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

Self-Dealing: A prohibited financial transaction between a private foundation and any disqualified person(s). There are a few exceptions to the self-dealing rule, including the reasonable compensation of a disqualified person by a foundation for services that are necessary in fulfilling the foundation's charitable purpose. See *Disqualified Person*.

Site Visit: Visiting a donee organization at its office location or area of operation; meeting with its staff or directors or with recipients of its services.

Social Investing: Also referred to as Ethical Investing and Socially Responsible 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.

Spending Policy: A policy that determines what percentage of a group of assets, such as an endowment, should be spent to cover both operating costs and grants of an institution. Typical spending rules combine calculations based on previous years' spending, the current year's income and investment return rates, and the policy of the foundation covering grant commitments.

Split Interest Gifts: Gifts that have two distinct parts or "interests:" a charitable interest and a noncharitable interest, often the donor. The rights given by the donor are tax deductible as a charitable contribution. Also see *Charitable Gift Annuity; Charitable Lead Trust; Charitable Remainder Trust; Future Interest Property; Retained Life Estate*.

Standard Deviation: In modern portfolio theory, the standard deviation is one of the primary measures of risk. It is an assessment of the volatility of a security or portfolio. Technically speaking, in statistics, standard deviation refers to the range of possible outcomes around the expected outcome of a random variable.

Supporting Organization: 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 demonstrate, at 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. Federal tax-exempt status can be obtained by applying to the IRS, and in most states, for state income tax exemptions, to the state attorney general's office.

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. See *In-Kind Contribution*.

Time-Weighted Rate of Return: The time-weighted rate of return measures the investment performance of the manager of a pool of assets, by removing the impact of cash flows external to the pool of assets.

Tipping: A 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.

Total Return: Measures the changes in portfolio value plus dividend or interest income plus realized capital gains or losses. Total return is expressed as a percentage of initial capital value, adjusted for net contributions or withdrawals.

Transfers: (1) The moving of dollars from one asset account to another within a fund (Pool asset account to checking account, for example). (2) The moving of dollars from one fund to another fund (Interfund Grant from Fund A received as Interfund Gift in Fund B).

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.

Trust Form: For a community foundation, when the investment responsibility resides with the trust department of one or more banks or brokerage firms and such trust departments have responsibility for developing and implementing investment policy. Also see *Corporate Form*.

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

Unrealized Gains/Losses: Increases/decreases in investments attributable to the fluctuations in value of the investments from one time period to another.

Unrestricted Fund: For a community foundation, 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.

Value Oriented: The security's current market price is a critical variable for this equity investment style. Some measures used are low absolute or relative P/E ratios, above-market dividend yields, price/book value, and price/sales ratios. Money managers who utilize this investment style look for the aforementioned measures as well as out of favor securities, industry sectors and potential turnaround candidates.

Variance Power: A distinguishing characteristic of community foundations, the variance power permits the community foundation's governing body to redirect resources in component funds 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.

Will: A written instrument legally executed by which a person makes disposition of his or her estate to take effect after death.

Yield-to-Maturity: In the fixed-income markets, this is the interest rate that makes the present value of a bond's future payments equal to its current market price. The yield-to-maturity, often referred to as "yield," is inversely related to the bonds price. If the price of the bond rises (falls), the yield falls (rises).