THE PHILANTHROPY GUIDE

A Glossary of
Terms and Definitions

Presented by

Ridgeway PHILANTHROPY
Achievement Formula
A fundraising technique and form of challenge grant in which the amount of a corporation's or foundation's gift to a charity is directly correlated to amounts raised from the public. (See also Challenge Grant).

Affinity Groups
Groups of funding organizations within a geographic region or with a particular funding focus that share best practices and periodically work together to provide funding jointly to nonprofits. These groups also provide professional development and networking opportunities to their members.

Affluenza
A term often used by the media to reflect the ennui and confusion that may surround newly-rich individuals, particularly those dubbed “baby billionaires”.

Alternative Minimum Tax
An income tax intended to ensure that taxpayers pay at least some minimum amount of tax when the regular income tax has been greatly reduced by generous use of deductions and exemptions.

Annual Fund
Aggregate gifts made during a fiscal year to support the activities included in a charity's annual operating budget. Contributions to an organization's annual fund can be restricted by the donor to support a specific budget item, or gifts can be unrestricted as to use.

Annual Support
A non-binding commitment to continue support for a specific charity each year. This commitment often facilitates an active, ongoing partnership between a private foundation or corporation and a community organization.

Annuity
Yearly payment of money for life or for a number of years. (See also Charitable Lead Annuity Trust, Charitable Remainder Annuity Trust, and Charitable Gift Annuity).

Appreciated Property
Property that has increased in value since the donor acquired the property. (See also Qualified Appreciated Stock).

Appropriated Funds
Money allocated and set aside by Congress to be spent the following fiscal year for authorized projects and programs.

Area Campaign
A way to raise funds by email, direct mail, or by the activities of staff and/or volunteers in a geographical area, usually for a particular purpose in a specified period of time.

Asset Mapping
A process of reviewing the positive aspects and resources of a community to create a more effective organization.
Balanced Scorecard Method
An evaluation technique used to measure the non-financial performance of a for-profit entity, developed by Harvard Business School Professor Robert Kaplan. This method has been adapted by Kaplan for nonprofits.

Bargain Sale
A sale of property made to a 501(c)(3) organization for less than fair market value, which will be treated for tax purposes as part sale and part charitable contribution. The amount of the donor’s charitable deduction is the difference between the appraised fair market value of the property sold and the fair market value of the amount received from the charity. The donor’s capital gain is computed by allocating basis between the gift portion and the sale portion. Some donors want to receive a lump sum or life annuity in return for a charitable gift, and don’t care about establishing a charitable remainder trust to hold their gift and secure their income stream. Instead, they sell appreciated property directly to a charity (the lump sum or the present value of the life annuity paid by the charity is less than the property’s fair value, thus benefiting the charity). This “bargain sale” gives the donor capital gain for the sale portion (the present value of the income stream or lump sum paid to the donor) and a charitable income tax deduction for the gift portion (the balance of the property’s fair value).

Basis
For purposes of computing capital gain on the sale of property, The amount that the owner originally paid for the property, plus the costs of certain improvements.

Bequest
A gift made through the donor’s estate plan, to take effect at the donor’s death.

Best Practices Benchmarking
A method by which an organization models its behavior after the procedures used by leading organizations in a specific industry in order to improve performance.

Block Grant
A federal grant for the use of state and local governments in broad spending categories to be decided upon by the state and/or local officials.

Bricks and Mortar Grants
Grants designated for buildings and/or construction projects.
Capital Campaign
A major organized drive to raise large sums of money to finance important needs (beyond the operating budget) of an organization including construction and renovation of buildings.

Capital Gain
The amount realized from the sale of a capital asset less the owner's basis in the property.

Capital Gain Tax
An income tax on a capital gain, often imposed at a lower tax rate than the tax on ordinary income such as wages, interest and dividends.

Capital Support
Funds granted for 'bricks and mortar' and endowments, outside the operational activities of the charity.

Categorical Grant
Similar to a block grant, but more restrictive. The categorical grant states specific categories in which the money must be spent.

Cause-Related Marketing
A method by which a for-profit enterprise can benefit nonprofit organizations by donating a certain percentage of receipts to nonprofit causes.

CDC (Community Development Corporation)
A community-based organization whose work is focused on supporting a specific geographic community, often developing affordable housing or providing economic development opportunities.

Challenge Grant
A technique to stimulate gift giving whereby a donor pledges to pay certain designated amounts only if the grantee raises additional funds from other sources according to a formula, within a specified period of time.

Charitable Gift Annuity
A written arrangement between a charitable organization and a donor in which the donor contributes cash or appreciated assets (with an agreed upon market value) to the charity in return for a guaranteed annuity for one or more lives. A donor pays more to purchase a charitable annuity than the present value of the annuity payments (using IRS actuarial and interest rate assumptions), with the excess comprising a charitable deduction.

Charitable Income Tax Deduction
A reduction of income in the computation of income tax. (See also Percentage Limitations).

Charitable Lead Annuity Trust (CLAT)
A trust funded by a donor that pays a fixed annuity to one or more charitable organizations for one or more persons' lifetimes or for a term of years, after which the remainder passes to individuals (or trusts for individuals) such as the donor's children. For a CLAT funded during the donor's lifetime, an income tax deduction may be available, but often the donor will forgo an upfront deduction and instead arrange for the CLAT to deduct the charitable distributions each year as they are paid (a CLAT is not tax-exempt). A gift tax deduction is available for the present value of what is predicted to pass to charity (using IRS actuarial tables and the "7520 rate" as the interest rate assumption). Donors are attracted to a charitable lead trust (CLT), both CLATs and CLUTs, in order to pass more assets to children at reduced gift and estate tax rates because a gift or estate tax deduction is
available for the present value of what is predicted to pass to charity. If a donor to a CLT reserves a large enough annuity for charity such that the present value of the annuity equals the value of the property contributed, than the present value of the amount expected to pass on to children after the charitable term will be zero, and no gift or estate tax will be due. If the CLT achieves an investment return above the IRS interest rate assumption, then in fact property will remain for the children after the charitable term, tax-free.

**Charitable Lead Unitrust (CLUT)**
A trust funded by a donor that pays a fixed percentage (a minimum of 5%) of its assets (revalued annually) to one or more charitable organizations for one or more persons' lifetimes or for a term of years, after which the remainder passes to individuals (or trusts for individuals) such as the donor’s children. For a CLUT funded during the donor’s lifetime, an income tax deduction may be available, but often the donor will forgo an upfront deduction and instead arrange for the CLUT to deduct the charitable distributions each year as they are paid (a CLUT is not tax-exempt). A gift estate tax deduction is available for the present value of what is predicted to pass to charity (using IRS actuarial tables and interest rate assumptions).

**Charitable Organization**
See 501(c)(3).

**Charitable Remainder Annuity Trust (CRAT)**
A trust funded by a donor that pays a fixed annuity to one or more individuals for their lifetimes or for a term of years, after which the remainder passes to one or more charitable organizations. For a CRAT funded during the donor’s lifetime, income tax and gift tax deductions are available; for a CRAT funded by bequest, an estate tax deduction is available. In each case the deduction is the present value of what is predicted to pass to charity (using IRS actuarial tables and interest rate assumptions). A CRAT is tax-exempt, and when it sells donated appreciated property it pays no capital gain tax; instead the capital gain is suspended and may be carried out to the individual beneficiaries over time. Many donors to a charitable remainder trust (CRT), both CRATs and CRUTs, own a low-basis, low-yielding investment that should be sold and diversified to produce more income, but are concerned about the capital gains tax bite. A contribution of the investment first to a CRT, followed by a sale free from immediate capital gains tax, results in the full sales proceeds available to generate new income. The savings from the income tax deduction can be used to purchase life insurance to replace the wealth passing to charity at the donor’s death.
Charitable Remainder Unitrust (CRUT)
A trust funded by a donor that pays a fixed percentage (a minimum of 5%) of its assets (revalued annually) to one or more individuals for their lifetimes or for a term of years, after which the remainder passes to one or more charitable organizations. For a CRUT funded during the donor’s lifetime, income tax and gift tax deductions are available; for a CRUT funded by bequest, an estate tax deduction is available. In each case the deduction is the present value of what is predicted to pass to charity (using IRS actuarial tables and the “7520 rate” as the interest rate assumption). A CRUT is tax-exempt, and when it sells donated appreciated property it pays no capital gain tax; instead the capital gain is suspended and may be carried out to the individual beneficiaries over time. Many donors prefer a CRUT to a CRAT because the annual valuations in a CRUT enable a donor to benefit from the continued appreciation of the trust.

Checkbook Charity
Gifts made to charitable nonprofit organizations from a donor’s discretionary income, not from funds purposefully set aside for philanthropic purposes.

Committed Funds
A portion of a donor’s available philanthropic dollars pledged for future donations to a specified charity or field of interest.

Community Economic Development (CED)
A strategy whereby individuals and organizations with common interests from a local community enlist various local and governmental resources to assist the community in developing opportunities to invest in itself, with new programs and ideas to be initiated and administered by the constituent community and community-based organizations.

Community Foundations
Typically public foundations comprised of multiple endowed funds established by different donors, which support a very distinct local or regional geographic area. They are governed by a common administrative body (directors or trustees) consisting of individuals who are knowledgeable about the community. These trustees are usually third parties from the community, not donors to the foundation. All of the funds are pooled for greater investment return, and the foundation usually makes its annual grants to other nonprofits from investment income. Endowment funds are either unrestricted or restricted for the use of a specific charity, a “field of interest” fund restricted to one charitable purpose (such as an environmental fund), or donor-advised.

Competitive Grant Competitive Grant
An award for specific types of research, training, etc. In a scientific research organization, proposals from prospective grantees are usually reviewed on a competitive basis by an independent board for the upcoming grant year.

Contingent Gift
A gift that is subject to certain specified conditions or restrictions.

Cooperative Venture
A relationship between and among grant making foundations and sometimes governmental agencies for the joint use of
resources and information by the venture partners.

**Corporate Foundation**
A private foundation established by a corporate entity to function as an independent grant making organization that is subject to all rules and regulations governing private foundations. Its assets are either endowed or supplied annually (depending on annual profit levels of the corporation) by the corporate entity and hence corporate foundations are often called “company sponsored foundations”. Although independent of the corporation, its decision-making board is usually comprised of certain members of the corporate management team along with corporate employees and sometimes community members. This type of corporate giving is often intended to build better relations with the community and gain public recognition.

**Corporate Giving Program**
A grant making program within a corporation, as opposed (or in addition) to a corporate foundation. Often a corporate giving program will include matching certain donations made by employees. (See also Matching Gift).

**Corporate Scholarship**
Financial aid given to employees or children of employees of a corporation based primarily on academic merit to assist the recipient with educational pursuits.

**Corporate Social Responsibility**
Business activities that combine commercial success with a policy of assisting social, environmental, educational, charitable or other activities that serve the common welfare.

**Corporate Volunteer Program**
A program which is established by a business and intended to encourage participation in the community through volunteer work by its employees and retirees. Some employers provide pay for time spent on volunteer work.

**Cy-pres**
In law, as near as possible to a donor’s intention; a court will conduct a cy-pres hearing to determine the use of a charitable bequest if the charitable purpose or organization specified in a will or trust no longer exists.
D & O Liability Insurance
A comprehensive insurance policy purchased by a nonprofit to transfer loss exposure to an insurance company. The term “insured” should include both the nonprofit itself and any subsidiaries, plus its directors, trustees, officers, employees, volunteers, and committee members. The protection applies to wrongful acts, as defined in the various policies, plus defense costs whether or not a judgment or settlement results from litigation. D & O insurance usually operates in addition to the indemnification provisions in the by-laws, which are allowed to some extent by all states. However, indemnification may be unavailable if either the nonprofit is not sufficiently solvent to support the amount of losses, or if other events reveal that indemnification is not permitted.

Declining Grant
A grant commitment payable over several years, but in decreasing amounts, with the belief that the recipient should seek greater funding from other sources.

Deferred Gift
A charitable planning technique (such as a charitable remainder trust or a gift of certain types of life insurance policies) whereby the charitable organization must wait to receive the gift until the death(s) of one or more persons or the termination of a term of years.

Demonstration Grant
A grant made to fund a first-of-its-kind project, feasibility study or program which, if successful, would serve as a model to be replicated.

Development
The organized efforts of nonprofit institutions to raise funds, often through a development office.

Development Potential
Collective opportunities of an organization to raise funds from private and other sources through an organized effort.

Direct Costs
Those cost items that can be directly related to producing the end product of a specific project or activity, usually including wages of personnel, consultants’, fees, consortia fees, telephone charges, and equipment. (See also Facilities and Administrative Costs).

Discretionary Funds
Foundation money that may be awarded to any recipient for any purpose without restriction.

Disqualified Persons
With respect to a private foundation, the term includes substantial contributors, foundation directors, trustees and officers, as well as certain employees, family members and entities related to them, and public officials, none of whom are permitted to engage in certain financial transactions with the foundation. With respect to a public charity (see Intermediate Sanctions), the term includes persons in a position to exercise substantial influence over the organization, including directors, trustees, most officers, family members of any of the above, and any organization at least 35% of which is owned by any of the above.

Distributable Amount
See Payout Requirement.

Donor-Advised Fund
A fund maintained by a public charity in which a donor can make suggestions and recommendations as to the ultimate destination of grants. The public charity charges a management and administration fee to the...
donor for the investment and distribution services provided. The donor receives an income tax deduction at the time the gift to the donor advised fund is made. Thereafter, the recommendations of the donor as to grant recipients are non-binding on the public charity and, therefore, the donor must be comfortable with the philosophy and services of the organization. Donor advised funds are a less expensive alternative to a family foundation, and provide the better deductions available for gifts to a public charity.
Eleemosynary
Of or pertaining to alms, charity, or charitable donations; dependent on or supported by charity.

Employer Matching Gift
See Matching Gift.

Endowment
Funds kept permanently and invested to provide income for continued support of an organization. Essentially, a pool of money that remains invested, with the principal protected and the earnings from the funds spent to support charitable work. Endowments require significant initial funding to create a meaningful income stream that can decrease or eliminate the need for annual fundraising efforts. Endowed chairs at universities and field of interest funds at community foundations are examples. An endowed chair might require a $1 million corpus to generate a $50,000 salary every year.

Entitlement Grant
A grant which is awarded automatically on a noncompetitive basis, typically by the federal government and premised upon a legally defined formula to all qualified agencies or institutions that qualify.

E-philanthropy
A charitable organization that functions primarily on the internet (e.g., "virtual philanthropy"); or internet-based activities, such as fundraising and grant making.

Estate Tax
A federal tax on the transfer of property at the death of its owner, based on the value of the property (at rates as high as 55%). The tax provides for a deduction of bequests to a spouse or certain trusts for the benefit of a spouse, and for bequests to charitable organizations. At the time of publication, Congress was considering a repeal of the federal estate tax.

Evaluation
A process by which the donor and donee assess (or have a third party assess) the progress, outcomes and results of a grant, to determine if the goals were valid and whether the project is accomplishing its goals, and to consider how the decisions of the donor and the donee could be refined, and whether or not the grant was a sound investment, etc.

Event Marketing
A charitable fundraising technique whereby a business sponsors an event in which the general public can participate with the proceeds donated to an identified cause. This kind of partnership will further the needs of the charity and help the community recognize the business as socially responsible.

Excess Business Holdings
Generally, a private foundation may not own more than 20% (less the amount owned by disqualified persons) of a corporation’s voting stock (although certain exceptions to this rule apply); IRS enforces with tax penalties.

Excise Tax
A federal tax paid by a private foundation of 1 or 2 percent of its net investment income.

Expenditure Responsibility
The obligation imposed on a private foundation to ensure that any grant it makes to other private foundations, to individuals, or to any organization that is not a 501(c)(3) organization is used solely for charitable purposes. Many
private foundations decline to make such grants to avoid the bookkeeping, monitoring and reporting requirements of expenditure responsibility.

**Extramural Funding**
Funds for projects or programs operated by non-governmental entities.

**Face to Face Solicitation**
A direct, in-person solicitation of an individual or foundation, rather than by email, direct mail or telephone.

**Facilities and Administrative Costs**
Those costs that cannot be assigned to or reasonably associated with any particular activity, project, product or service. Also commonly referred to as “overhead”, “general and administrative costs” or “indirect costs” and usually includes the costs of or related to central administrative and clerical positions, legal and financial services, insurance, general purpose capital and noncapital equipment and its maintenance, security, office supplies, and utilities related to general administrative activities.

**Family Foundation**
A private foundation with funds received from members of a single family, who also often are officers or board members providing a vital role in grant making decisions of the foundation.

**Family Philanthropy**
A melding of issues and concerns of various family members participating in philanthropy, usually through a family foundation which ultimately reflects common objectives. It helps the family work together for a common purpose and the children to become more educated about wealth.

**Feasibility Study**
An in-depth study to assess the potential of an organization to raise funds conducted by fundraising experts and usually prepared to determine the potential of a capital campaign.

**Federated Appeal**
A campaign conducted by a central agency for all of its member agencies. This type of campaign serves to reduce the number of fundraising efforts by nonprofit organizations which participate in the campaign. Examples include the United Way and community chests or funds, the United Jewish Communities and other religious appeals, and joint arts councils.

**Fiduciary Duty**
Most states' laws require that directors and trustees of charitable organizations perform their duties in good faith, in a manner which they reasonably believe to be in the best interests of the organization, and with such care as an ordinarily prudent person in a like position in a similar charitable organization would use under similar circumstances. Duties of care and loyalty require that directors and trustees (i) attend regular meetings and review information sufficient to remain alert to the organization’s activities, the investment of its assets, and the distribution of its funds for both administrative purposes and charitable purposes; (ii) evaluate the organization’s executive director or any other employee or agent as to their reliability and competence in the matters which they have been delegated; (iii) disclose fully and timely the existence of any conflict of interest, and consider withdrawal from any discussion and voting on such matter; and (iv) independently evaluate the fairness to the
organization of any activity or transaction that might involve a conflict of interest between the foundation and others.

**Flow-Through Foundation**
A private foundation that pays out as qualifying distributions, within 2 1/2 months of the close of a taxable year, all of the contributions that it received during such taxable year, thus qualifying such contributions for the more generous charitable deductions normally afforded to contributions to a public charity.

**Flow-Through Funds**
Contributions used for direct grantmaking rather than endowing a foundation. Many corporate foundations use flow-through funds annually rather than income from endowment funds.

**Form 1023**
An application to the Internal Revenue Service for status as a 501(c)(3) organization; the organization also reports on this form whether it intends to be a private foundation or whether it intends to qualify as a public charity.

**Form 990**
An information return submitted annually to the Internal Revenue Service by most tax-exempt organizations (not required for religious organizations), requiring information on assets, income, operating expenses, contributions and grants, paid staff and salaries, program funding areas, grantmaking guidelines and restrictions, and grant application procedures.

**Formula Grants**
Generally, awards from federal agencies to state governments based on demographics, such as a certain amount of dollars per population, per capita income, or registration and enrollment.

**Funding Cycle**
The period of time during which donor organizations set funding priorities, solicit and review proposals and decide on grants, either at predetermined intervals (quarterly, semiannually or annually, etc.), or on a case by case basis.

**Funding Networks/Affiliates**
See Affinity Groups.
Gaming
Activities usually used to raise funds by nonprofits, including Bingo, Beano, lotteries, 21, and the like. Exempt organizations which conduct or sponsor charitable gaming activities may be subject to UBIT, and employment and excise taxes.

General Purpose Foundation
A private foundation with a broad mission statement which supports many different charitable activities in broad fields of interest which may change from time to time as the directors and trustees direct.

General Support
An unrestricted grant to further the general purpose or work of an organization and not designated for a specific purpose or project. (See also Operating Support Grant).

Generation-Skipping Transfer Tax
A federal tax (at a flat rate equal to the highest estate tax bracket, currently 55%) on generation-skipping transfers, reduced (perhaps to zero) to reflect the use of the donor’s generation-skipping transfer tax exemption.

Generation-Skipping Transfer Tax Exemption
An exemption ($1,030,000 in 2000) provided by the tax law to each donor of property, which can be used to reduce or eliminate the generation-skipping transfer tax.

Generation-Skipping Transfers (GST)
Any one of (i) gifts or bequests from a donor directly to grandchildren or more remote descendants; (ii) with respect to a trust created by a donor for the benefit of a spouse or child, the event (perhaps the death of the spouse or child) after which the trust is solely for the benefit of grandchildren or more remote descendants, if such event does not otherwise cause the trust to be subject to gift or estate tax; or (iii) with respect to a trust described in (ii) above, a distribution from the trust (prior to such event described in (ii)) to a grandchild or more remote descendant of the donor.

Gift Analysis
Examination of gift records to help upgrade a fund raising program and to determine opportunities and problem areas.

Gift in Kind
A non-monetary gift e.g., supplies, equipment, property, staff time, or office space. Donations to charity auctions are considered gifts in kind.

Gift Opportunities
Generally refers to specific items to which “price tags” and “naming opportunities” have been attached (such as a room, a building, a library, a chair, etc.).

Gift Processing
The method used by a development office for tracking, recording, acknowledging receipt of, and thanking donors for gifts. Must be done in accordance with standard accounting rules.
**Gift Range Table**
An estimate of the number of gifts needed at each dollar level to reach a campaign goal. A range table usually focuses on major gifts.

**Gift Tax**
A federal tax on the transfer of property to any person for less than fair market value. The tax provides for a deduction of gifts to charitable organizations.

**Grant**
Funds given to an organization or individual to undertake and/or support charitable activities. A grant is not accepted with a guarantee of a particular outcome on the grant recipient’s part, as a service contract might be. However, it is increasingly expected that outcomes will be measured and evaluated.

**Grant Proposal**
The document(s) presented to a funder containing the request for funding.

**Grantee Financial Report**
A report detailing the use of grants by a nonprofit, including all expenditures from grant funds and a financial report covering revenue and expenses, assets and liabilities.

**Grant Making Policy**
The rules established for a foundation by its governing board that guide the way grants are awarded.

**Grassroots Fundraising**
Broad-based fundraising efforts undertaken on a community level, sometimes targeted at the constituency that benefits from the nonprofit’s work. Common examples of grassroots fundraising include door-to-door solicitations, car washes, bake sales, raffles or auctions.
Independent Foundation
A private foundation over which the original donor or the donor’s family has no control.

In-Kind Contribution/Gift/Support
See Gift in Kind.

Institutional Advancement
A comprehensive program of fundraising, public relations, publications, marketing, internet presence, and constituent relations undertaken by a nonprofit organization.

Intermediate Sanctions
A penalty tax applied to any disqualified person who receives an excessive benefit from financial transactions with a public 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 members of the charity’s board, who knowingly approve an excess benefit transaction.

Irrevocable Trust
A trust whose terms and provisions cannot be changed, modified, amended, or revoked (except to the extent provided by the terms of the trust, perhaps for the limited purpose of ensuring the trust continues to meet the requirements of the Internal Revenue Code).

IRS Tax Determination Letter
A letter from the IRS as to whether the organization is qualified as a Section 501(c)(3) organization and whether the IRS considers the organization to be a private foundation or a public charity.
Jeopardy Investment

An investment that risks the foundation’s ability to carry out its exempt purpose; tax rules give the IRS discretion to penalize a foundation and its managers for engaging in such investments.
**Letter of Intent**
A written account of a donor’s intent to make a gift or pledge. May or may not be legally binding.

**Leverage**
A gift or grant made with the specific intention that it will encourage and attract subsequent gifts from additional donors. Also referred to as the “multiplier effect.”

**Liability Insurance**
See D & O Liability Insurance.

**Life Estate**
The right of a donor to retain the use of property for the donor’s lifetime (or for the life of another), after which the remainder of the property will belong to a third party. Donors receive an income tax deduction for a contribution of a remainder interest (following a retained life estate) in a personal residence or farm to a charitable organization.

**Lobbying**
Attempts by any organization to influence or otherwise secure passage of certain legislation. Public charities may elect to conduct a limited amount of lobbying without violating the rule that a 501(c)(3) organization may not conduct substantial lobbying activities.
**Master Plan Study**

An analysis done for a nonprofit (by either in-house or external parties) of its finances, development practices, board management, external relations, and other administrative aspects to help in strategic planning.

**Matching Gift**

A cash gift from an employer to a charity in an amount which usually matches the exact amount of a gift (or is made according to some other prescribed formula) from one or more of its employees. Such programs can be used to encourage employee giving and also to raise employee and public awareness of the corporation’s philanthropic philosophy. Some corporations often loan out their executives who then volunteer for the charity for a designated period of time.

**Minimum Investment Return**

See Payout Requirement.

**Mission Statement**

A statement of the philosophy and intent of the foundation or nonprofit which helps it to focus on areas of interest, inform grant seekers and others about the plans of the foundation, and clarify goals by setting grant making priorities. For a private foundation, the mission statement is also closely related to “grant making policy”.

**Mutual Aid Society**

A nonprofit organization which benefits its members financially (such as a firefighters’ mutual aid society to assist widows and children of firefighters). These organizations are not 501(c)(3) organizations.
**Needs Assessment**
The study of a nonprofit organization in an effort to determine and analyze current, immediate, and long-term needs. These needs can be for physical plant improvements, endowment funds, new administrative or program equipment and programs, staff compensation enhancements, and the like. A needs assessment helps set fundraising goals and priorities and is conducted prior to the launch of a capital campaign.

**New Profit Sector**
A new sector of the American economy composed of individuals, foundations, corporations, and other entities that straddle the existing nonprofit and for-profit sectors.

**Nongovernmental Organization (NGO)**
A term used outside the United States and in international circles to describe local and international organizations that function as nonprofits do in the United States.

**Non-Monetary Donations**
See Gift in Kind.

**Non-Operating Foundation**
A private foundation that primarily makes grants to public charities rather than directly conducting charitable activities.

**Nonprofit Enterprise**
A profit-making enterprise or business initiated and overseen by a nonprofit to generate revenue to support the mission-based, charitable activities of the nonprofit.

**Nucleus Fund**
Contributions made prior to the public announcement of a campaign. These gifts are commonly intended to inspire future prospective donors once the campaign is publicly announced. As much as 50% of a campaign’s total goal might be raised in the nucleus phase.
Operating Foundation
A private foundation that undertakes direct charitable activities or research, rather than simply supporting other nonprofits through grant making (although a small amount of grant making can occur). Research institutes, libraries, and museums are common examples. Donations to operating foundations qualify for the more generous income tax deductions normally afforded to contributions to a public charity.

Operating Support Grant
A grant that is awarded to provide budget-relieving funds for ongoing programs or projects that are already part of the grantee organization’s regular activities. Sometimes called “general support.”

Outcome Evaluation
An outcome-oriented foundation or nonprofit that focuses on outcomes as the primary measures of success. (See also Evaluation).
**Partnership**

Many grantor-grantee relationships are developed when a combination of nonprofits, for-profits, and/or government agree to work cooperatively with a common goal involving betterment of the community in some charitable way. Venture philanthropists and nonprofits realize that a partnership means that there will be a sharing of power, management, support and/or information with others involved in the partnership.

**Pass-Through Foundation**

See Flow-Through Foundation.

**Payout Requirement**

A government regulation that sets a minimum amount that private foundations are required to expend on grant making and administrative activities each year. The current annual payout requirement is 5% of the fair market value of a foundation’s assets.

**Percentage Limitations**

The limitations on the amount of charitable contributions that can be deducted by a taxpayer in any one year. The limitations are 50% of the taxpayer’s adjusted gross income with respect to gifts of cash to a public charity; 30% of the taxpayer’s adjusted gross income with respect to gifts of cash to a private foundation; 30% of the taxpayer’s adjusted gross income with respect to gifts of long-term capital gain property to a public charity; 20% of the taxpayer’s adjusted gross income with respect to gifts of long-term capital gain property to a private foundation. For corporate donors, the limitation is 10% of adjusted taxable income. Contributions by individuals in excess of these limitations can be carried forward and used in subsequent tax years for up to five years. A donor has adjusted gross income of $100,000. Under the percentage limitation rules, she can contribute and deduct in one year: $20,000 of long-term capital gain property to her family foundation; another $10,000 of long-term capital gain property to a public charity (for total contributions of $30,000 of long-term capital gain property); another $10,000 of cash and short-term capital gain property to the family foundation (for total contributions to the foundation of $30,000); and another $10,000 of cash and short-term capital gain property to a public charity (for total contributions to all charities of $50,000). If the long-term capital gain property contributed to the foundation is qualified appreciated stock, it will be deductible at its fair market value of $20,000; otherwise its deduction will be limited to the donor’s basis in the property.

**Perpetuity**

A term used in foundation and tax law to mean endless time or eternity, particularly as opposed to a limited life foundation whereby the foundation achieves a maximum impact in a certain field for a designated number of years and then terminates.

**Philanthropic Mutual Funds**

An alternative term for donor-advised funds favored by venture philanthropists. Usually refers to funds managed by a financial institution rather than by a community foundation.
**Philanthropic Portfolio**
The complete range or set of charitable gifts (considered investments) undertaken by a donor.

**Pilot**
A program specifically initiated as a test to determine whether the same project can be implemented on a greater scale.

**Planned Giving**
The application of sound personal, financial and estate planning concepts to a donor’s plans for lifetime and testamentary giving. Often the term applies to the use of vehicles such as charitable remainder trusts, whereby the donor retains an interest in property while simultaneously donating an interest to charity.

**Pledge**
Usually connotes a commitment to make donations over a number of years, sometimes based on certain formulae. Generally, pledges are legally binding on a donor or his or her estate if the charitable organization has taken action in reliance on the pledge or if the donor has received some benefit in return for having made the pledge.

**Pooled Common Fund**
A private foundation maintained by a public charity (usually a community foundation) as a trustee to which various donors contribute funds that are pooled together and invested by the trustee. Donors to a pooled common fund can maintain a certain degree of control over distributions, and their donations qualify for the more generous income tax deductions afforded to contributions to a public charity despite the fund’s classification as a private foundation.

**Pooled Income Fund (PIT)**
A fund in which a donor’s gift is commingled with those from other donors, and a pro rata portion of the income earned by the fund is paid to the donor for life.

**Private Foundation**
A 501(c)(3) organization that can not satisfy any of the requirements for classification as a public charity. Funding sources are usually limited to one individual or corporation and related parties, and therefore the foundation has little direct public involvement. Private foundations allow personal control and flexibility as its programs are usually managed by its own trustees or directors. (See also Non-Operating Foundation, Operating Foundation, Family Foundation, and Independent Foundation).

**Program Officer**
Paid foundation staff member whose duties include reviewing responses to requests for proposals and monitoring programs of the foundation’s grantees.

**Program Related Investment (PRI)**
A loan or other form of financial investment made by a foundation to a nonprofit organization to further the goals and interests of the foundation. Unlike a grant, the foundation expects repayment of the invested principal with at least some interest (though the interest is often at below-market rates), which allows the foundation to make more investments in the future.

**Proposal**
See Grant Proposal.
Prospect Rating
A method used by nonprofits to estimate the giving potential (and sometimes giving inclination) of an individual, family or foundation. The rating is determined through research into personal, professional, social, and financial information conducted by fundraising professionals.

Prudent Investor Act (PIA)
A statute (adopted in varying forms by some states) guiding trustees (including trustees of tax-exempt organizations) on investment policy, generally requiring that the following circumstances be considered in investing and managing assets: general economic conditions; the possible effect of inflation or deflation; the role that each investment or course of action plays within the overall trust portfolio; and the expected total return from income and the appreciation of capital. In general, the Act encourages reasonable diversification of assets, along with diligence in reviewing the portfolio and implementing decisions designed to bring the portfolio into compliance with the Act.

Trustees are permitted to delegate their investment function if prudent to do so, so long as reasonable care is taken in selecting the agent, establishing the scope of the delegation, and periodically reviewing the agent’s actions. Fees paid to a trustee must be reasonable in relation to the assets, to the charitable purpose of the trust, and to the skills of the trustee.

Public Charity
A 501(c)(3) organization that is any one of the following: (i) a religious organization, school, hospital, or governmental unit; (ii) an organization that meets certain “public support tests” (see below); or (iii) a supporting organization.

Public Support Test
Test designed by the IRS to ensure that public charities are committed and responsive to the general public rather than to the private interests of donors. The test generally requires that the organization receive (on average, viewing the organization’s most recent four years) more than one-third of its financial support from the general public, disregarding any donations to the extent that the donor and related parties have contributed more than two percent of that support. The test can sometimes be met if only ten percent of financial support comes from the general public so long as certain facts and circumstances exist to prove that the organization is responsive to the general public.
Qualified Appreciated Stock
Stock for which market quotations are readily available on an established securities market and which is long term capital gain property. Donations of qualified appreciated stock to a private foundation may be deducted to the extent of the stock's fair market value at the date of the gift, but donations of any other appreciated capital gain property to a private foundation is deductible only to the extent of the donor's basis in the property.

Qualifying Distributions
Expenditures of a private foundation (generally grants to public charities and reasonable expenses) which satisfy the foundation's annual payout requirement.

Query Letter
A letter sent to a foundation or other grant maker prior to submitting a full, detailed grant proposal. The query letter seeks confirmation that it would be appropriate to send a full proposal, based on a brief summary of the organization’s goals and funding needs.

Quid Pro Quo Transaction
In fundraising, the process whereby a donor makes a gift in exchange for specified, negotiated benefits which can endanger the charitable tax deduction.
**Remainder**
Property remaining in a trust at the time it terminates or at the end of a life estate.

**Research Grant Research Grant**
Financial support awarded to further research, clinical trials, studies and investigations.

**Restricted Gift**
A donation made to a nonprofit that may be spent on no other project or program other than that specified by the donor at the time of gift.

**Revenue Sharing**
A mechanism whereby the Federal Government sends funds collected from a locale or region back to local units of government.

**Revocable Trust**
A trust whose terms and provisions can be changed, modified, amended and revoked. The power to do this is usually reserved by the person who created the trust, but sometimes the power may be given by the creator to a second person.

**RFP (Request for Proposal)**
A document issued by grant makers - either federal or state governments or private foundations - containing distinct program or project specifications and procedures for applying for funds.
SAB (Scientific Advisory Board)
A board consisting of well-known and highly-respected scientists and researchers in a particular field, that convenes once or twice a year. Such a board will review grant applications in response to RFPs on a numeric system based on merit after full discussion and review by and among the members of the SAB, and will nominate individuals eligible for grants to the governing board.

Seed Money
Funds or grant money awarded to start a new nonprofit or initiate a new program within an existing nonprofit.

Self-Dealing
A financial transaction between a private foundation and a disqualified person(s) made illegal under the tax laws. Some exceptions exist to the self-dealing rule, such as reasonable compensation of a disqualified person for necessary services that are actually performed.

Set-Asides
Funds earmarked for a project by a foundation in a particular year, but not necessarily distributed in that year. As long as the funds are expended within five years, the set-aside counts as qualifying distributions.

Settlor
The grantor or donor who forms a trust.

Shotgun Approach
A fundraising method that solicits a broad, untargeted constituency via direct mail and/or email.

Site Visit
Visit to an organization which is under consideration for, or which has already received, a grant award. Often used to help monitor effectiveness of programs by grantors.

Social Capital
The ability of social structures and systems to help people achieve their goals for the common good. Individuals have control over social capital but do not own it. Social capital begins with human capital - the development of self-sufficient individuals who are mutually supportive and have the generosity and skills to create the structures, organizations, and resources needed for healthy and equitable communities.

Social Entrepreneur
A motivated leader who works to effect change in the social sector through the creation of innovative organizations. These organizations often have a mission similar to traditional nonprofits, but carry out their missions using techniques more commonly found in the private sector, such as: venture capital investors, enterprise-based revenue streams that support the social mission, high levels of outcome measurement and accountability.

Social Marketing
The promotion of an idea or belief through use of the mass media to effect social change, such as anti-smoking campaigns.

Social Philanthropy
See Socially Responsible Investing.
Social Return on Investment (SROI)
A tool for measuring non-financial success of a grant, developed by the Roberts Enterprise Development Fund.

Socially Responsible Investing
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. Can also be used in a private sector context.

Special Purpose Foundation
A private foundation that concentrates its grant making in distinct areas of interest, such as juvenile diabetes or decreasing violence in schools.

Sponsorship
Typically, a for-profit organization that voluntarily affiliates with a nonprofit and underwrites certain fund-raising events, with the added benefit of enhancing corporate image and presence in the community.

Stakeholder Relations
Operating an organization so as to keep the needs of interested, and sometimes competing, constituents in balance. Stakeholders include those intended to benefit from the implementation of the charitable purpose.

Standby Foundation
A foundation set-up possibly to receive lifetime contributions, but which stands primarily to receive a major bequest at someone’s death or upon termination of a trust.

Stewardship
Managing an organization in accordance with its stated mission and legal guidelines and making responsible, prudent investment decisions. Often involves establishing a long-term focus or mission.

Strategic Philanthropy
Charitable giving undertaken from a deliberate, targeted, long-term perspective to achieve tangible results. This philosophy requires a proactive, outcome-oriented attitude and an involved, close relationship with nonprofits that are funded.

Supporting Organization
A 501(c)(3) organization that does not meet the public support test to qualify as a public charity, but which nevertheless qualifies as a public charity because it is dedicated operationally and programmatically to support one or more public charities, generally specifying the support of such public charity in its governing documents as its charitable purpose and generally ceding control of investment decisions to representatives of such public charity.
Tax Credit
A credit against tax liability.

Tax Receipt
A receipt from an authorized charity acknowledging a donation and entitling the donor to deduct the amount of the donation from taxable income. Donors of $250 or more are required to hold a tax record before filing their tax returns, declaring that the donor received no personal benefit.

Tax-Exempts/Tax-Exempt Organizations
Nonprofits which are not subject to federal or state income taxes, sales taxes, or other taxes imposed on for-profit organizations. Must receive an IRS Determination Letter certifying that the organization is exempt from Federal income tax. 501(c) organizations are the only type of tax-exempt organizations that provide donors with an income tax deduction; other types of tax-exempt organizations include business leagues and chambers of commerce, civic leagues, labor organizations, social clubs, and fraternal orders.

Technical Assistance
Assistance in administrative and operational affairs of nonprofit organizations such as fundraising, project and financial planning, governance and legal advice and other similar organizational needs.

Testamentary Gift
A disposition of property by way of bequest as designated in a will.

Testamentary Trust
A trust established under the terms of a will.

Third Sector
The sector of our economy which is neither governmental nor commercial but rather which is independent of both.

Tipping
A situation caused by a donation which alters or “tips” a charity's funding base and causes a 501(c)(3) organization to lose its public charity status because it cannot pass the public support test.

Trustee
Generally, one who is appointed to carry out the provisions of a trust and who holds the legal title to the trust property exclusively for the benefit of another; specifically, a foundation board member appointed under a trust with a role in operating the foundation and assisting in grant designations.
Uniform Management of Institutional Funds Act (UMIFA)
A statute governing the expenditure of endowment funds, stating that there shall be no expenditure of the historic dollar value (original principal of contributions and transfers) of an endowment and that expenditures of realized and unrealized appreciation of an endowment shall be made only if prudent to do so considering (i) long- and short term needs of the organization in carrying out its charitable purposes; (ii) the problems peculiar to the organization; (iii) the organization's present and anticipated financial requirements; (iv) the expected total return on its investments; (v) price level trends; and (vi) general economic conditions. There is a rebuttable presumption of imprudence in expenditures from the realized and unrealized appreciation of an endowment that exceed in the aggregate, in any one year, seven percent of the fair market value of the endowment, such fair market value determined at least quarterly and averaged over a period of three or more years.

Unrelated Business Income Tax (UBIT)
A federal tax on income from any legal trade or business conducted by a tax-exempt organization to make money in a way not directly related to its tax-exempt mission.

Unrestricted Funds
Amounts awarded to a nonprofit with no stipulation from the grantor as to how the funds should be spent and which may therefore be applied by the nonprofit as it deems appropriate.

Upgrading
Seeking to influence donors to give larger amounts, especially during an organization's annual fund drive.
Values Statement
A statement that defines the premises which govern the organization’s conduct and that helps to establish an organization’s identity.

Venture Capital
Investment capital targeted at early-stage private businesses with a goal of high return on investment and with an eye toward eventual public offering of stock or sale to a strategic buyer.

Venture Philanthropy
The application of venture capital investing principles to philanthropic giving. The venture philanthropy approach includes funding social entrepreneurs in organizations with scale-up potential. Support is often long-term and the funder makes substantial commitments to a few, rather than smaller commitments to many. Support includes board participation, team building, technical assistance, and a resource network. Long-term sustainability of the organization is a key objective.

Venture Philanthropy Funds
Venture capital funds that are managed either by nonprofits themselves or by outside professionals, the proceeds of which benefit charitable activities.

Vision Statement
See Mission Statement.

Volunteer Center
A coordinating and/or training organization which enlists volunteers to work for nonprofits in a particular community.
501(c)(3)
The section of the Internal Revenue Code that exempts certain types of organizations (such as charitable, religious, scientific, literary, educational, or those that test for public safety, foster national or international sports cooperation, or work to prevent cruelty to animals) from federal income tax and permits these organizations to receive tax deductible donations. In order to qualify for this designation, an organization must be organized and operated exclusively for these charitable purposes, must not benefit any private shareholder, may not carry on any substantial lobbying activities, and may not participate in any political campaign for public office. (See also Tax-Exempt Organizations).

7520 Rate
The interest rate (discount rate) assumption required to be used to compute the present value of income, annuity and remainder interests, published by the IRS monthly; generally 120% of the average market yield on mid-term U.S. treasury obligations determined just prior to the applicable month.