Community Foundation of St. Clair County
Glossary of Foundation Terms

A –

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

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

Agency Fund: Also, can be referred to as an Agency or Organization-Designated Fund, this is a type of endowment fund established for the benefit of a specific nonprofit organization. If the Agency itself contributes to the Fund, accounting regulations (FAS 136, FAS 116/117) require that audited financial statements (of a community foundation) report the agency share of gifts and related income/expenses as a liability and exclude from net assets. The Agency would then report that beneficial share as an asset (receivable).

Articles of Incorporation: One of a Foundation’s Governing documents, which is filed with the State, to establish a corporation.

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

B -

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

Bylaws: Another Governing Document of a Foundation, this establishes the governing rules governing for operations of a nonprofit corporation, such as selection of directors, the creation of committees, authority, and the conduct of meetings.

C -

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

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

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

Community Foundation: A community foundation is a tax-exempt, nonprofit, autonomous, publicly supported, philanthropic institution composed primarily of permanent funds established by many separate donors of the long-term diverse, charitable benefit of the residents of a defined geographic area. Typically, a community foundation serves an area no larger than a state. Community foundations provide an array of services to donors who wish to establish endowed funds without incurring the administrative and legal costs of starting independent foundations. There are more than 750 community foundations across the United States today. The Cleveland Foundation is the oldest; the New York Community Trust is the largest.

D -

Denial: The rejection of a grant request.

Designated Fund: A type of restricted fund in which the Fund's beneficiaries are specified by the donors.

Discretionary Funds: Grant funds distributed at the discretion of one or more trustees, which usually do not require prior approval by the full board of directors. The governing board can delegate discretionary authority to staff and committees.

Disqualified Person: 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) donors and donor advisors with regard to transactions with a particular donor advised fund, (4) investment advisors to assets of donor advised funds, (5) and disqualified persons of supporting organizations who are also disqualified persons of the supported organization, (6) family members of the above, and (7) businesses they control. Paying excessive benefits to a disqualified person will result in the imposition of penalty excise taxes on that person, and, under some circumstances, on the charity's board of directors

Donor: The individual or organization that makes a contribution.

Donor Advised Fund: A fund may be classified as donor advised if it has at least three characteristics: (1) a donor or person appointed or designated by the donor has, or reasonably expects to have, advisory privileges with respect to the fund's distributions or investments, (2) the fund is separately identified by reference to contributions of the donor(s), and (3) the fund is owned and controlled by a sponsoring organization, such as a community foundation. A fund possessing these characteristics may be exempt from the donor advised fund classification if it grants to one single public charity or government unit or if the fund meets certain requirements applicable to scholarship funds.

Donor Designated Fund: A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. These funds are sometimes established by a transfer of assets by a public charity to a fund designated for its own benefit, in which case they may be known as grantee endowments. The community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

E -

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

Expenditure Responsibility: For community foundations, this is the due diligence process that must be followed to prevent certain donor-advised grants from being taxable and otherwise potentially jeopardize its IRS tax-exempt status. Expenditure responsibility is designed to ensure that a grant is used for charitable purposes and that the community foundation maintains appropriate oversight and documentation of certain grants from donor advised funds. In the absence of IRS-issued rules defining the expenditure responsibility steps for community foundation grants from donor advised funds, community foundation standard practices follow the IRS rules for private foundations.

F -

Field of Interest Fund: A fund held by a community foundation for which the donors want to support a specific charitable field of interest that can encompass geographic location or components of the charitable population served such as gender, age, culture or religion.

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 Management Fees: For Community Foundations, this is the largest source of its operating revenue. As the name implies, fund management fees are assessed against individual funds for the management (administration) of the Fund, and the fee rates are outlined by the Foundation’s Fund Management Fee Policy based upon the fund type.

G -

Geographic Affiliate: A component fund established within or by a Community Foundation, serving a defined geographic region (within the Foundation’s service area) and under a common advisory group. This ‘affiliate’ fund, also referred to as a community fund, legally operates under the control of the community foundation but is not separate entity, in contrast to a supporting organization.

Community Foundation of St. Clair County
Glossary of Foundation Terms

Grant: An award of funds to an organization or individual to undertake charitable activities. Grant Monitoring: The ongoing assessment of the progress of the activities funded by a donor, with the objective of determining if the terms and conditions of the grant are being met and if the goal of the grant is likely to be achieved.

Grantee: The individual or organization that receives a grant.

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

H -

Historic Gift Value: The sum of the original gift to principal plus any subsequent gifts to principal to a Fund. Although tracking of this value is no longer required under UPMIFA (Uniform Prudent Management of Institutional Funds Act), comparison of a Fund’s historic gift value to its current fund balance is often still used as a measure of the Fund’s health and used in determining annual spending rates.

Hybrid Fund: The term characterizes an Agency Fund, whereby both the Agency along with third-party donors have contributed to the Agency (or Organization-Designated) Fund. In these situations, the Agency beneficial share is reported as a liability on a community foundation’s books while the third party share is part of net assets (running through the income/expense statement) like all other Funds.

I -

Impact Investing: See Mission Investing.

In-Kind Contribution (Offsetting In-Kind Expense): A donation of goods or services rather than cash or appreciated property (the offsetting expense that is provided through the in-kind contribution).

L -

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..

M -

Matching Gifts Program: A grant or contributions program that will match employees' or directors' gifts made to qualifying educational, arts and cultural, health or other organizations. Specific guidelines are established by each employer or foundation.

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

Mission Investing: The use of Foundation assets to provide a public benefit with the intention of generating a measurable financial, social or community impact. Mission investing may encompass investments with either a market-like rates of return, or a below market rate of return. For the scope of our policy, our definition of mission investing will also include program-related investments, whereby our assets may be used for public good in the form of zero or below market rates loans, including those with forgivable terms. Mission investments, while aligned with the Foundation's charitable mission, are not funded through its annual grant/program budgets but rather are funded as a component of its invested assets. This term is often used in interchangeably with ethical investing, socially responsible investing, and impact.

N –

Non-endowed: This term describes a gift to income or a Fund whereby 100% of the gift or Fund's balance is spendable. As such, the Foundation's Spending Policy does not apply.

O -

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

P -

Philanthropy: Philanthropy describes the industry community foundations are in and centers on the concept of voluntary giving of time, talents and treasures to promote the common good. Philanthropy describe both our donors' giving to our Foundation as well as what we do through the grant-making we provide to nonprofit organizations.

Pledge: A promise to make future contributions to an organization. Accounting regulations require all formal, written pledged contributions to be recorded in an organization's financial records at the present value of future payments.

Post-Grant Evaluation: A review of the results of a grant, with the emphasis upon whether or not the grant achieved its desired objective.

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

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

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

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 (see Public Support Test) to be considered public charities, or must be formed to benefit an organization that is a public charity (see Supporting Organization). Charitable organizations that are not public charities are private foundations and are subject to more stringent regulatory and reporting requirements (see Private Foundation).

Public Foundation: Public foundations, along with community foundations, are recognized as public charities by the IRS. Although they may provide direct charitable services to the public as other nonprofits do, their primary focus is on grantmaking. To be eligible for membership in the Council, a public foundation must grant at least $60,000 yearly and must dedicate at least 50 percent of its organizational budget to a competitive grantmaking program.

Public Support Test: There are two public support tests, both of which are designed to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a)(1) or 170(b)(1)(A)(vi) for the sections of the Internal Revenue Code where it is found, is for charities like community foundations that mainly rely on gifts, grant, 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. That is, they must demonstrate that their sales and contributions normally add up to at least one third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

R -

Restricted Fund: In contrast to what is deemed an unrestricted fund, this term refers to a Fund for which some form of donor-imposed restriction exists. These restrictions can be placed on the use/support purpose of the Funds, the timing of grants, the types of organizations or programs that can be supported or in the procedures used to make grants from such funds.

Community Foundation of St. Clair County
Glossary of Foundation Terms

S –

Scholarship Fund: A Fund that provides support for higher education costs including tuition assistance, books, housing, specified training and other college fees. These grants are paid to the School/College/University for the benefit of the Student recipient. Scholarships may be taxable for the student to the extent they exceed tuition and education costs and cover personal living expenses such as housing and food.

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

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

Social Investing: See Mission Investing.

Spending Policy: A Foundation's policy for determining the spending rate from its endowment funds that will be made available for distribution in a given year. To balance the need for consistent distributions while minimizing the likelihood of invasion into a Fund's historic gift value, this policy's calculation is based upon a total return method as a percentage of the average market value of a Fund for a stipulated number of trailing, rolling quarters. Additionally, a spending policy will outline other parameters for spending, including the length of time in existence before any spending is allowed and the impact for "Underwater" Funds. A Spending Policy does not apply to Non-endowed Funds (100% spendable).

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

T -

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

U -

"Underwater" Fund – This term refers to the status of a Fund whereby market losses have taken a Fund's current fund balance below its historic gift value, which generally will have impact on its spending rate.

UPMIFA (Uniform Prudent Management of Institutional Funds Act): Replacing the Uniform Management of Institutional Funds Act, this Act provides uniform legal guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations to ensure funds are managed and invested in good faith and with the care an ordinarily prudent person would exercise under similar circumstances. Several rules relating to managing and investing an institutional fund are outlined by UPMIFA, but may be modified by the gift instrument (Fund Agreement).

Unrestricted Fund: This Fund, is one that has no donor-imposed restrictions on use, timing, etc… by the donor and can support generable charitable purposes at the discretion of the Foundation. Collectively, this term can also refer to the group of Funds falling into this Unrestricted Fund type.

V -

Variance Power: Outlined in a Foundation's governing documents and further stated in fund agreements, variance power enables a Foundation's Board to modify, without prior approval or subsequent confirmation of any court, any restrictions or conditions on the distribution of funds, including any provisions for distributions to specified organizations, if, in its sole judgment, those restrictions become, either wholly or in part, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation.