

Glossary

The nonprofit world uses terms from accounting, tax law, and other fields that may be unfamiliar to the public. Here is a selective glossary of terms you may encounter in the grant application process. Please note that certain definitions are defined by law.

#

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 the 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)(1-29) to identify other nonprofit organizations whose function is not solely charitable (e.g., professional or veteran organizations, chambers of commerce, fraternal societies, etc.)

A

AGENCY FUND

Established by a nonprofit organization (agency) for the benefit of the nonprofit organization. Distributions are made annually to the nonprofit organization to support its operations, programs, and other initiatives.

ANNUAL OPERATING BUDGET

A statement outlining the revenue and expenses that an organization expects over the course of a year. As a nonprofit, the annual operating budget is a crucial reference point to ensure your organization is on track financially and that it doesn't overspend in any one area.

ANNUAL REPORT OR ANNUAL CONTRIBUTIONS REPORT

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



ARTICLES OF INCORPORATION

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

ASSETS

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

AUDIT

The procedure followed by an independent accountant to develop an opinion whether an organization's financial statements fairly represent the organization's financial condition. An audit includes selectively testing transactions and internal controls at an organization according to standards established by the accounting profession. An audit provides an organizational outsider the highest degree of assurance regarding an organization's finances.

AUDITED FINANCIAL STATEMENT

The financial information of an organization, presented in a standardized format following an audit by an independent accountant. Audited financial statements for nonprofit organizations include the auditor's opinion, followed by the statement of financial position, statement of activities, statement of cash flows, and notes amplifying certain portions of the statements. Certain kinds of organizations may also have a statement of functional expenses. The format and standards for financial statements are prescribed by the Financial Accounting Standards Board (FASB). See definitions of these terms elsewhere in this glossary. (Note: The accountant does not test everything. Relatively small errors may still exist.)

B

BEQUEST

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

BOARD OF DIRECTORS

The group ultimately responsible for the success of a nonprofit corporation or association. Board members help steer an organization in the right direction to achieve its mission, which includes planning for the future and following legal guidelines to act in the organization's best interest. The method by which its members are selected and some guidance about how the Board of Directors will operate can be found in the organization's charter documents (such as the articles of incorporation and bylaws).

BRICK AND MORTAR

An informal term indicating grants for buildings or construction projects.

BUILDING CAMPAIGN

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



BYLAWS

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



CAPITAL CAMPAIGN

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

CHALLENGE GRANT

A type of charitable grant awarded by a grantmaker to encourage other donors to support the charity. A challenge grant typically will not be paid to the charity unless and until the charity obtains other gifts in a specified amount by a specified deadline.

COLLABORATIVE

An effort by two or more charities to combine their services, typically for a specific project. The term may also refer to efforts by grantmaking foundations to pool their grant resources.

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. According to Foundation Center, there are more than 800 community foundations across the United States today. The Cleveland Foundation is the oldest; the Silicon Valley Community Foundation is the largest.

CONFLICT OF INTEREST POLICY

A formalized statement of policy by an organization defining when an employee, director, or other person covered by the policy has divided loyalties between the organization and the individual's business or personal interests. A conflicts policy also should specify the procedures to be followed for disclosure and disposition of conflicts as they arise.

CONSENT AGENDA

A process that bundles several topics, reports, and routine items into one meeting agenda item, which is voted upon. This saves a lot of meeting time and is reserved for non-conversational topics. However, this requires board members to have reviewed the Consent Agenda materials in advance of the Board Meeting.



CURRENT ASSETS

An accounting term for those assets that a charity could reasonably expect to turn into cash or use within a one-year period.

CURRENT LIABILITIES

An accounting term for those organizational obligations that are owed within the next year.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

A central database that helps organizations track communication with constituents. It's useful for social-impact professionals to be familiar with CRMs, as many organizations rely on these platforms to organize information, create reports, and monitor how many volunteers or donors support their mission.

D

DESIGNATED FUNDS

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

DIRECT SERVICE

A program or activity that works directly with an intended population. While many nonprofit organizations use research and advocacy to achieve their missions, those that provide direct service use hands-on work to interact with community members. Some examples of direct service include working in a soup kitchen or mentoring young children through an after-school program.

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 or agency funds. 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.



DUPLICATED

A term applied to an agency's reported service numbers if the figures do not represent unique, individual clients. For example, an agency that serves the same ten people each month can report 120 clients per year on a duplicated basis, but ten clients on an unduplicated basis.

E

EMPLOYER IDENTIFICATION NUMBER (EIN)

A nine-digit number assigned by the Internal Revenue Service. Every IRS-designated tax-exempt nonprofit organization has its own EIN.

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 the nonprofit. 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.

EVALUATION

After a grant is awarded, an evaluation is required to be completed. Usually, this is an assessment of how the grant agreement was executed. May also be referred to as a follow-up form.

EXECUTIVE COMMITTEE

A special committee which is generally structured to include the main leadership, Board Chair, and key leaders of the nonprofit. This committee may meet more often than the full board. The Executive Committee in some cases has the authority to make more substantial decisions such as contracts. The rules and structure of the Executive Committee should be described in the organization's bylaws.

EX OFFICIO

Latin, "By virtue of one's office." An ex officio board member typically holds expertise in a particular area that can be helpful to the council carrying out their duties. They agree to serve in a position because the organization requires their expertise or influence in that position. Bylaws determine whether a particular individual has voting rights or not. Unless otherwise specified in the bylaws, they are entitled to the same voting rights as regular members. In order to restrict an ex officio member from voting, the bylaws must specifically state that restriction. In some cases, the Executive Director (ED) typically serves on boards as an ex officio member. Executive directors serving as ex officio board members will remain on the board for their tenure in the ED role.



F

FIDUCIARY DUTY

The legal duty to act solely in another party's interests. Board members have a fiduciary duty when they represent their nonprofit organization.

FIELD OF INTEREST FUND (FOI)

A fund held by a community foundation that is used for a specific charitable purpose such as education or health research. May also be referred to as an Area of Interest fund.

FISCAL SPONSOR (OR FISCAL AGENT)

A fiscal sponsor is a nonprofit organization that provides fiduciary oversight, financial management, and other administrative services to help build the capacity of charitable projects. Fiscal sponsorships are useful for organizations that are not yet recognized as tax-exempt under Internal Revenue Code Section 501 (c)(3) or that simply have decided that operating under the umbrella of another tax-exempt organization makes sense.

FISCAL YEAR

The one-year period selected by an organization for financial reporting purposes, which may differ from the calendar year. For example, the Community Foundation of Abilene's fiscal year extends from July 1 of one calendar year to June 30 of the following calendar year. Each consecutive 3-month period within the fiscal year is called a fiscal quarter.

FORM 990

Form of federal informational tax return filed annually by publicly supported charities, unless they qualify for an exception to the filing requirement. Nearly all of Form 990 is public information under federal law. See "Public inspection copy of Form 990." Any charity, whether public or private, that has certain kinds of income must also file a Form 990-T.

FORM 990-PF

Form of federal tax return filed annually by private foundations, which calculates any federal taxes due and demonstrates the foundation has met its federally required payout. The return, including its list of contributors, is public information under federal law. See "Public inspection copy of Form 990" definition.



G

GIFT ACKNOWLEDGEMENT

A gift or donation acknowledgement is a type of letter sent to donors to acknowledge or thank them for their charitable gifts. The acknowledgement may include IRS tax donation receipt information, but this is not always appropriate. For gifts/donations made from donor-advised funds through the Foundation, the Foundation provides the tax donation receipt to the donor and the organization receiving the gift should provide an acknowledgement in the form of a thank you letter to the donor.

GRANT

An award of funds to an organization or individual to undertake charitable activities. Grants are not expected to be repaid.

GRANT CONTRACT (OR GRANT AGREEMENT)

A written agreement between a grantmaking organization, such as a private foundation, and a charitable organization, typically spelling out the purpose of the grant, the payment schedule, grant reporting requirements, and similar matters.

GRANTEE

The individual or organization that receives a grant.

GRANTOR

The individual or organization that makes a grant.

GRANT EVALUATION

A review of the results of a grant, with the emphasis upon whether the grant achieved its desired objective. Compare to "Evaluation."

H

I

IN-KIND CONTRIBUTION

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

J

K



L

LETTER OF DETERMINATION

A letter issued by the Internal Revenue Service to a charitable organization notifying the group that the IRS has determined the group is a charity under section 501(c)(3) of the Internal Revenue Code, and that the group is either a private foundation or a publicly supported charity. The “Letter of Determination” is not the same as a “Tax-Exemption Certificate.”

LETTER OF INTENT

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

LETTER OF INQUIRY

Also referred to as a query letter, this is a brief letter outlining an organization's activities and a request for funding sent to a prospective donor or grantor to determine if there is sufficient interest to warrant submitting a full proposal. This saves the time of the prospective donor/grantor and the time and resources of the prospective applicant.

LOBBYING VS. ADVOCACY

Certain nonprofits, such as those classified as 501(c)3 organizations, must follow strict guidelines to maintain their tax-exempt status, which includes refraining from partisan activities and lobbying. While a lot of social-impact work involves advocating for an organization's mission, it can be confusing to note what might cross the line.

Lobbying involves activities that seek to influence specific legislation at the local, state, or federal level. An example of lobbying is communicating with a government representative to persuade them to vote for or against a piece of legislation. According to the Internal Revenue Code, public charities are allowed to engage in some lobbying as long as it does not become “a substantial part of their activities.”

Advocacy, on the other hand, involves spreading awareness about a certain issue. This can include sharing information and resources that support your organization's work, as long as there is no communication with a representative about a specific piece of legislation.

LIQUID ASSETS

Cash on hand or in banks, or investments that can be quickly converted to cash.

M

MANAGEMENT LETTER

A statement issued by an organization's independent auditor commenting on internal financial controls and other management issues discovered during the audit process. A management letter typically includes areas needing improvement and recommendations for addressing those areas during the next 12-month period.



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.

MINUTES

Meeting minutes serve as an official record of the events, decisions and actions taken by committees or the board of directors of an organization. Minutes should contain the time and location of the meeting, a list of voting attendees and guests, and a summary of the discussion and decisions made by a vote of the committee or board members.

MISSION

A statement that outlines an organization's objectives and how it plans to achieve them, such as through research or direct service, to support its vision. To learn more about how an organization determines its vision, scroll down to our definition for "vision" below.

MULTIYEAR GRANT

An award pledged by a grantmaking organization to be paid to the charity over a period of more than one year.



NET ASSETS

The difference between a charity's total assets and total liabilities. Compare "Unrestricted Net Assets."

NONPROFIT ORGANIZATION (NPO)

A nonprofit organization, also known as a non-business entity or nonprofit institution, is a legal entity organized and operated for a collective, public or social benefit. This is in contrast with an entity that operates as a business aiming to generate a profit for its owners. A nonprofit is subject to the non-distribution constraint: any revenues that exceed expenses must be committed to the organization's purpose, not taken by private parties. An array of organizations are nonprofit, including some political organizations, schools, business associations, churches, social clubs, and consumer cooperatives. Nonprofit entities may seek approval from governments to be tax-exempt, and some may also qualify to receive tax-deductible contributions, but an entity may incorporate as a nonprofit entity without securing tax-exempt status.



OPERATING BUDGET

A financial plan that projects an agency's overall revenue and expenses for a specified period.



OPERATING SUPPORT OR GENERAL OPERATING SUPPORT

Unrestricted donations to a charity, which the charity may use for any purpose, such as paying its operating costs, including salaries, utilities, and occupancy costs. Compare to “Program Support.”

P

PAYOUT REQUIREMENT

The minimum 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% of the average market value of its assets.

PERMANENTLY RESTRICTED

Term applied to assets, such as an endowment, on which the original donor imposed a permanent restriction. Compare to “Temporarily Restricted Assets” and “Unrestricted Assets.”

PHILANTHROPY

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

PLANNED GIFT

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

PLEDGE

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

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 private foundations as defined in the code.



PROGRAM

Term used to describe a discrete group of focused activities conducted by a charity to achieve a particular result. A homeless shelter, for example, might operate a job training program to assist its clients in becoming financially independent.

PROGRAM BUDGET (ALSO PROJECT BUDGET)

A financial plan that projects the revenue and expenses for a specified period, but only for a specific program or project within the charity's activities, not for the charity as a whole.

PROGRAM EXPENSE RATIO

The relationship, expressed as a percentage, between what a charity spends on the direct provision of services through its programs, and what it spends overall.

PROGRAM SUPPORT

A contribution that the donor restricts for use in a specific area of the charity's services. Compare to "Operating Support" definition.

PUBLIC INSPECTION COPY OF FORM 990

A copy of a charity's annual tax return available for public inspection in compliance with federal law. All 501(c)(3) charities that file a tax return, both public charities and private foundations, must make their returns (and some other tax documents) available to any member of the public who requests them. Making the return "widely available" on the internet (through the agency's own or a third-party website) may satisfy this requirement. Public charities are not required to disclose the names of contributors on the public inspection copy of the return. Private foundations are so required. See the "Form 990" and "Form 990-PF" definitions.

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 SUPPORT TEST

The public support test is a provision of the IRS tax code that requires most public charities to meet to maintain their tax-exempt status. The test ensures that a nonprofit's income comes from a diverse set of donors or payors for charitable services, rather than from a single source.



Q

QUASI-ENDOWMENT

Quasi-endowments are assets set aside by the nonprofit's board to be invested to provide long-term income for the organization. They are also known as “board-designated endowments” and “funds functioning as endowments.” Under a quasi-endowment, income as well as principal may be spent at the discretion of the organization's board and are unrestricted assets from an accounting perspective. See “Endowment” definition above.

R

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.

S

SCHOLARSHIP FUND

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

SEED MONEY

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

SITE VISIT

An in-person visit by a grantmaker to a charity to meet the agency's key staff, program principals, and clients. Site visits typically occur during the process of evaluating a request for funding, but may also occur after a grant has been awarded to assess a program's progress.

SPONSORSHIP

A contribution made to help put on a special event held by a charity to raise funds or awareness of the charity's services.

STATEMENT OF ACTIVITIES

One of the three typical financial statements for nonprofit organizations, equivalent to a profit-and-loss statement or income statement in for-profit accounting. The statement of activities includes income, expenses, and changes in net assets.



STATEMENT OF CASH FLOWS

One of the three typical financial statements for nonprofit organizations, showing the cash receipts and cash disbursements for the organization during the reporting period, and whether the cash is related to operating, investing, or financing activities by the charity.

STATEMENT OF FINANCIAL POSITION

One of the three typical financial statements for nonprofit organizations, equivalent to a balance sheet in for-profit accounting. The statement of financial position includes assets, liabilities, and net assets.

SUPPORTING ORGANIZATION

An organization that is treated as a public charity, instead of a private foundation, because of its relationship to one or more public institutions or publicly supported charities. IRS Section 509(a)(3) and related regulations describe three levels of relationship that will classify the charity as a supporting organization: “operated, supervised, or controlled by” (Type 1); “supervised or controlled in connection with” (Type 2); and “operated in connection with” (Type 3).

STRATEGIC PLAN

A formal guide that identifies the actions an organization must take to achieve its mission. The process of forming a strategic plan requires nonprofits to identify their goals and objectives to decide the next steps for their work.

T

TAX EXEMPTION CERTIFICATE

An official document that declares certain purchases are exempt from standard taxation, such as sales tax, Value Added Tax (VAT), or Goods and Services Tax (GST). These tax exemption certificates serve as proof of an organization's or individual's tax-exempt status and are typically required when making tax-exempt purchases.

TEMPORARILY RESTRICTED ASSETS

A term applied to a contributed asset on which the donor has placed restrictions that will expire either by the passage of time, or through the organization's activities, such as conducting a particular program. Compare to “Permanently Restricted Assets” and “Unrestricted Assets.”

TOTAL LIABILITIES

All claims against an organization's assets, such as accounts payable, payroll taxes, and bank loans.



U

UNRESTRICTED FUND

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.

UNRESTRICTED ASSETS

Assets that have not been designated to specific uses by the donor. A charity may use unrestricted funds in carrying out its operations, or for any other purpose it determines appropriate.

UNRESTRICTED NET ASSETS

Those net assets on which there are no donor restrictions.

V

VISION:

A statement that clearly defines the overall goals of the organization, which the organization's mission helps to achieve. A social-impact organization may have both a mission statement and a vision statement to guide its work.

For example, an organization may have a vision statement that outlines a world where all children have access to education. The mission statement may share that the organization's goals are to build schools and provide rural communities with learning tablets.

Together, mission and vision statements can inspire social-impact professionals and members of the public to engage with an organization's work.

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