

Accountability Self-Assessment for Private Foundations

Version 1.1 (Nov. 2006)

GLOSSARY OF TERMS

Definitions of key terms used in the Accountability Self-Assessment Tool:

990-PF: The federal information tax return used for all private foundations filing under tax-exempt status.

990-T: The federal tax form that must be filed by any nonprofits (including private foundations) that have gross unrelated trade or business income of \$1,000 or more (see Unrelated Business Income Tax below).

Accountability: Private foundations must be accountable to the public because foundation donors and the institutions they create receive important tax benefits and are consequently required to serve valid public purposes as defined by law. Foundations are stewards of public as well as private trusts, and must reflect this stewardship in everything they do.

Advocacy: A broad range of activities to defend or maintain a cause or proposal and to push for changes in public policy. These activities may or may not include lobbying.

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

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

Conflict of Interest: A situation in which the private interests of someone involved with an organization could cause him or her to make decisions that are not in the best interest of the organization.

Direct Lobbying: A communication with a member or employee of a legislative body (or certain other government officials) that both (a) refers to specific legislation and (b) reflects a view on the legislation.

Disqualified Person: A private foundation's officers, directors, trustees, key employees, substantial contributors, their family members and certain entities associated with any of these individuals. Federal self-dealing laws prohibit a wide range of transactions between a private foundation and any disqualified persons.

Donor Intent: The vision, legacy and intentions of a foundation's original donor for the foundation's mission.

Donor Restriction: A stipulation that the donated assets to a foundation must be maintained permanently, permitting expenditure of only the income or net appreciation of the donated assets. A gift for endowment is a donor restriction.

Due Diligence: The process through which a grantmaker researches a nonprofit's financial and organizational health to guide a grantmaking decision.

Earmarking: A grant is earmarked if the grantee is required to use the grant funds for a specific purpose or recipient, or if the grantor has the right to impose such a requirement.

Excise Tax: An annual federal tax that private foundations must pay on 1% or 2% of their investment income. The IRS can also impose penalty excise taxes on private foundations, and in some cases their managers, for violations of certain federal laws.

Expenditure Responsibility: When a private foundation makes a grant to an organization that is not classified by the IRS as tax-exempt under Section 501(c)(3) and as a public charity according to Section 509(a), the IRS requires that the foundation exercise "expenditure responsibility" to ensure that the proposed grantee can fulfill the intended charitable purpose of the grant and that the grant will not be used for private gain or political activities. The steps involved in exercising "expenditure responsibility" include making a pre-grant inquiry and a detailed, written agreement and filing special reports on the status of the grant.

Fiduciary: An individual or entity responsible to manage assets for the benefit of others.

Fiduciary Duty: The legal responsibility for investing money or acting wisely on behalf of another.

Financial Statements: Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.

Fiscal agent: An organization or a legal entity managing the funds for a nonprofit organization.

Fiscal sponsor: An arrangement where an established nonprofit provides financial support for a project that may be independent or which has yet to obtain its own tax-exempt status.

Functionally Integrated Supporting Organization: A Type III supporting organization is considered to be functionally integrated if it performs the functions of, or carries out the purposes of, the supported organization and, but for the supporting organization, the supported organization would normally engage in these activities directly. For example, a Type III supporting organization that operates a printing press for a university would be considered functionally integrated because without the supporting organization the university would carry out the activity itself.

Grant Agreement: A legally binding written understanding between a grantmaker and a grantee specifying terms for a grant's expenditure and reporting.

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

Grassroots Lobbying: Any attempt to influence the opinions of the general public about specific legislation. In order to be grassroots lobbying, a communication must (a) refer to specific legislation, (b) reflect a view on the legislation and (c) encourage the recipient to take action, such as contacting his or her legislator.

Internal Control: Process designed to provide reasonable assurance regarding achievement of various management objectives, such as the reliability of financial reports.

IRC Election 501(h): A section of the Internal Revenue Code that provides specific guidance on how much a public charity can spend on lobbying activities. Any charity that files IRS Form 5768 can choose to be treated under the lobbying expenditure test in Section 501(h), which many organizations find more advantageous than other federal laws on lobbying expenditures. (The 501(h) election does not apply to private foundations.)

Jeopardizing Investment: An investment that risks a foundation's ability to carry out its exempt purposes. Federal tax law provides that certain risky investments or investment strategies may constitute "jeopardizing investments" that subject a foundation to private foundation excise taxes.

Lobbying: Any attempt to carry on propaganda or otherwise attempt to influence public officials in support of, or in opposition to, any legislation that has been introduced, or any draft legislation that may be introduced, in any legislative body.

Lobbyist: A person who is compensated for multiple lobbying contacts and whose lobbying activities constitute at least 20% of his or her services for an organization during any six-month period.

Public Charity: The federal tax code divides charities into two basic types: public charities and private foundations. Public charities include churches, educational institutions and hospitals, as well as publicly supported organizations such as museums and community foundations.

Risk Management: A general term describing the process of analyzing risk in all aspects of an organization's management and operations and developing strategies to reduce the exposure to such risks.

Site Visit: A fact-finding visit that a foundation's staff and/or board members make to a grant applicant's or grantee's office location or area of operation, which may involve meeting with the nonprofit's staff, directors and/or recipients of its services. Site visits are normally conducted before a grant is approved, during project implementation and/or during project evaluation.

Supporting Organization: Generally stated, a supporting organization is a 501(c)(3) that qualifies as a public charity because it provides meaningful support (financial, programmatic or both) to another public charity, and yields some degree of structural and operational control to that charity. Based on the relationship of the supporting organization to the public charity it supports, a supporting organization will be classified as a Type I, II or III.

Transparency: Transparency is the opposite of privacy; an activity or organization is transparent if all information about it is open and freely available. Being transparent helps a private foundation fulfill its obligation to be accountable to the public, and can also help improve its effectiveness. When foundations make information about them open and freely available, it can help them do their jobs better by clarifying the objectives they are seeking, informing potential grantees of priority interests, and making the general public aware of their accomplishments.

Type III Supporting Organization: A Type III supporting organization operates with a greater degree of independence from the organization it supports than Type I or Type II supporting organizations. Typically the supported organization appoints one member of a Type III supporting organization's board and institutes other procedures to ensure that the supporting organization is responsive to it.

Unrelated Business Income Tax (UBIT): Federal tax on income that is the result of any legal trade or business conducted by a nonprofit organization to make money in a way not directly related to its tax-exempt mission.

Unsolicited Grant Proposal: A proposal sent to a foundation without invitation or prior knowledge on the part of the foundation, usually in response to a foundation's application guidelines. Some foundations will not accept unsolicited proposals or applications.