Module 6

Chapter 6: Financial Statements and FASB

LEARNING OBJECTIVES

- **Discuss why we prepare audited financial statements and the resources available in preparation.**
- **Identify the requirements in FASB's new financial statement standard and changes for not-for-profits to consider as well as implementation techniques that could assist in converting a not-for-profit's financial statements and footnotes to the new standard.**
- **Distinguish between contribution and exchange transactions and conditional and unconditional contributions and grants.**
- **Discuss timing of contribution and grant revenue recognition**
- **Identify and apply other GAAP relevant to foundations.**

ASU 2016-14 – Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, ASU 2016-14 was issued to update the current NFP financial reporting model and to better enable NFPs to "tell their financial story."

The provisions of the new model are summarized as:

- New liquidity and availability disclosures required
- Net asset classes reduced from three to two
- Additional disclosures for underwater endowments required
- All not-for-profits (NFPs) must report expenses by nature and function in one place, and describe the methods used to allocate among functional categories
- Net investment return replaces other alternatives
- Use of direct method in a statement of cash flows eliminates reconciliation of change in net assets to cash flows from (used for) operating activities

Liquidity and Availability of Resources

ASU 2016-14 requires new disclosures related to both qualitative and quantitative aspects of liquidity.

- *Qualitative* information on how an NFP manages its liquid resources available to meet cash needs for general expenditures within 1 year of the balance sheet date (*in the notes*)

- *Quantitative* information that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within 1 year of the balance sheet date (*on the face of the financials and/or in the notes*)

Availability may be affected by:

- Nature of the assets
- External limits imposed by donors, laws, and contracts with others;
- Internal limits imposed by board decisions

Net Assets - Overview

Under current GAAP, NFPs record their net assets in one of three categories: Unrestricted, Temporarily Restricted, or Permanently Restricted. Revised GAAP will narrow it down to two categories: With Donor Restrictions and Without Donor Restrictions, plus add a requirement for enhanced disclosures.

Net Asset Classification Requirements

- Two classes
  - With donor/grantor-imposed restrictions; and time restrictions
    - Includes perpetual and temporary
  - Without donor/grantor-imposed restrictions
    - Includes board-designated
- Disclosure requirements
  - Composition of net assets with donor/grantor restrictions
  - Emphasis on how/when resources (net assets) can be used
    - Specified purpose(s)
    - Specified time(s)
    - Perpetual (endowment, i.e., "funds of perpetual duration")
  - Quantitative and qualitative information about board designations

Board Designated Net Assets

NFPs must disclose the nature and amounts of board-designated net assets. Board designated net assets includes net assets without donor restrictions that are subject to self-imposed limits set by governing board for programs, investment, contingencies, fixed asset acquisition, major repairs, or other uses. Some governing boards may

delegate designation decisions to management. Those designations are considered to be included in board-designated net assets.

NFPs need to have policies and procedures on the establishment of board-designated net assets, conditions under which net assets are to be designated, in what amounts, and how such net assets may be spent down (i.e., released from designation).

The level of disaggregation shown on the face of the financial statements is up to the entity, but if not disaggregated on the face of the financial statements, it must be disaggregated in the footnote disclosures.

Endowments

Refresher:

Definitions

UPMIFA: An institutional fund or part thereof that, under the terms of the gift instrument, is not wholly expendable by the institution on a current basis. The term does not include assets that an institution designates as an endowment fund for its own use.

GAAP:

An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity (NFP). The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide either of the following:

a. A permanent endowment, which is to provide a permanent source of income

b. A term endowment, which is to provide income for a specified period.

Alternatively, an NFP's governing board may earmark a portion of its unrestricted net assets as Board-Designated Endowment Fund

NOTE: With implementation of ASU 2016-14, GAAP definition to be updated to:

An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity (NFP). The use of the assets of the fund may be with or without donor-imposed restrictions. Endowment funds generally are established by donor-restricted gifts and bequests to provide a source of income in perpetuity or for a specified period.

Alternatively, an NFP's governing board may earmark a portion of its net assets as

Board-Designated Endowment Fund

Current GAAP Required Disclosures

Current GAAP requires disclosures that include descriptions of:

- The governing board's interpretation of the law or laws that underlie the organization's net asset classifications
- The foundation's endowment spending policy or policies for the appropriate endowment assets
- The foundation's endowment investment policies including:
  - The organization's return objectives and risk parameters
  - How those objectives relate to the organization's endowment spending policy or policies
  - The strategies employed for achieving those objectives
- The composition of the organization's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds
- A reconciliation of the beginning and ending balance of the organization's endowment, in total and by net asset class, including, at a minimum, the following line items (as applicable): investment return, separated into investment income (interest, dividends, rents) and net appreciation or depreciation of investments (gains or losses realized or unrealized)—contributions, amounts appropriated for expenditure, reclassifications, and other changes.

Endowment Update

The changes ASU 2016-14 affect Underwater Endowments. The first change is that Underwater Endowment is now defined in the Master Glossary. The definition is as follows:

- Donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions

Under the ASU, the entire balance of the endowment fund is reported in the "with donor restrictions" class of net assets.

Under Current GAAP, each time a statement of financial position is presented, an entity

must disclose the aggregate amount by which endowment funds are underwater. These amounts cannot be offset by net appreciation in other funds not underwater.

New underwater endowment disclosure requirements enhance the previous disclosures and require the following:

- Interpretation of the NFP's ability to spend from underwater endowment funds
- NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds
- For each period presented - each of the following, in the aggregate, for all underwater endowment funds:
    - The fair value of the underwater endowment funds
    - The original endowment gift amounts (or level required to be maintained by donor stipulations or by law that extends donor restrictions)
    - The amount by which the original gift amount exceeds the fair value (the deficiency = 2 less 1)

The following is an example endowment disclosure under the new standard:

As of December 31, 20X1 and 20X0, we had the following endowment net asset composition by type of fund:

12/31/20X1	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 15,511,186	$ -	$ 15,511,186
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	19,174,849	19,174,849
Accumulated investment gains	-	12,678,095	12,678,095
	$ 15,511,186	$ 31,852,944	$ 47,364,130

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 20X0, funds with original gift values of $19,883,738, fair values of $19,841,061, and deficiencies of $42,677 were reported in net assets with donor restrictions. These amounts were fully recovered during 20X1 due to favorable market fluctuations.

Functional Expenses Reporting

ASU 2016-14 requires **ALL** NFPs, including Voluntary Health and Welfare Entities, to present an analysis of expenses by function and nature in one location. There are three options for presentation:

- Present a separate statement of functional expenses
- Present a table in the notes
- Incorporate into the statement of activities

All NFPS are also required to include a description of the method(s) used to allocate costs among program and support functions.

The ASU also includes improved and expanded guidance about management & general expenses.

Example presentations are as follows:

Separate Statement of Functional Expenses:

[All NFPs are required to report information about expenses in one location, either on the face of the statement of activities, as a schedule in the notes to the financial statements, or as a separate financial statement. Presenting this information as supplementary information does not meet the requirement.]

Save Our Charities
Consolidated Statement of Functional Expenses
Year Ended December 31, 20X1

	Program Services			Management and General	Fundraising and Development	Cost of Goods Sold	Total
	Advisory	Training	Total				
Grants and other assistance	$ 294,261	$ -	$ 294,261	$ -	$ -	$ -	$ 294,261
Salaries and wages	6,769,754	1,061,585	7,831,339	370,234	254,176	-	8,455,749
Employee benefits	1,398,503	310,865	1,709,368	99,963	26,222	-	1,835,553
Payroll taxes	541,580	84,927	626,507	29,619	19,823	-	675,949
Professional services	1,306,807	87,197	1,394,004	12,780	1,704	-	1,408,488
Accounting fees	-	-	-	40,073	-	-	40,073
Legal fees	-	7,939	7,939	-	-	-	7,939
Advertising and promotion	33,085	21,006	54,091	79,261	132,478	-	265,830
Office expenses	87,071	56,654	143,725	9,867	22,794	-	176,386
Information technology	37,858	606,535	644,393	12,399	14,653	-	671,445
Occupancy	446,601	29,799	476,400	14,918	55,427	-	546,745
Travel	170,957	18,283	189,240	149,292	-	-	338,532
Conferences, conventions and meetings	32,516	66,287	98,803	11,505	-	-	110,308
Interest	387,428	-	387,428	-	9,457	-	396,885
Insurance	198,174	12,556	210,730	5,443	1,022	-	217,195
Training and development	457,617	20,659	478,276	9,113	33,669	-	521,058
Gift shop cost of goods sold	59,621	-	59,621	-	-	-	59,621
Cost of direct benefits to donors	-	-	-	-	-	12,601	12,601
Depreciation and amortization	1,147,186	74,425	1,221,611	20,112	13,960	-	1,255,683
Bad debt expense	-	-	-	16,892	-	-	16,892
Other	31,569	5,977	37,546	2,122	7,474	-	47,142
Total expenses by function	13,400,588	2,464,694	15,865,282	883,593	592,859	12,601	17,354,335
Less expenses included with revenues on the statement of activities							
Gift shop cost of goods sold	(59,621)	-	(59,621)	-	-	-	(59,621)
Cost of direct benefits to donors	-	-	-	-	-	(12,601)	(12,601)
Total expenses included in the expense section on the statement of activities	$ 13,340,967	$ 2,464,694	$ 15,805,661	$ 883,593	$ 592,859	$ -	$ 17,282,113

Included in the Statement of Activities:

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	1,234
Total expenses	18,293

Improved and Expanded Guidance for Management and General Expenses

- Oversight
- Business management
- General recordkeeping and payroll
- Budgeting
- Financing, including unallocated interest costs
- Soliciting funds other than contributions and membership dues
- Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting
- Disseminating information to inform the public of the NFP's stewardship of contributed funds
- Making announcements concerning appointments
- Producing and disseminating the annual report
- Employee benefits management and oversight (human resources)
- All other management and administration <u>except</u> for the direct conduct or direct supervision of program services, fundraising activities, or membership development activities

Guidance on when to allocate M&G Expenses

- Activities that represent <u>direct conduct</u> or <u>direct supervision</u> of program or other supporting activities require allocation from management & general activities to those program or other supporting activities
- Examples from the ASU:
  - IT - benefits various functions and generally would be allocated
  - CEO – could be allocated to program, fundraising, M&G
  - CFO – could be allocated to M&G and investment expense
  - HR – generally would assign all to M&G
  - Grant Accounting and Reporting – program reports would be program (grant-related) but financial reports and related accounting would be M&G

Example Allocation Method Disclosure

Note 13 - Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

[All NFPs are required to report this information either on the face of the statement of activities, as a schedule in the notes to the financial statements, or as a separate financial statement. Presenting this information as supplementary information does not meet the requirement]

Net Investment Return

With the new standard, NFPs will no longer be required to report investment income components and related expenses separately. Investment income should be reported on a net basis with all external and direct internal investment management and custodial expenses netted against return.

Internal expenses include the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return

- Salaries, benefits, travel, and other costs associated with staff responsible for development and execution of investment strategy, including supervising, selecting and monitoring external managers
- Excludes costs not associated with generating investment return, such as administrative management, contracts, and pooled-fund administration

Programmatic investments are excluded from this guidance.

- Programmatic Investing: The activity of making loans or other investments that are directed at carrying out a not-for-profit entity's purpose for existence rather than investing in the general production of income or appreciation of an asset (for example, total return investing). An example of programmatic investing is a loan made to lower-income individuals to promote home ownership.

Statement of Cash Flows

NFPs may continue to use either the direct or indirect method of presenting the statement of cash flows.

If the direct method is used, NFPs are no longer required to show the reconciliation of the change in net assets to cash flows from operating activities

Other Considerations
Effective date for the standard is fiscal years beginning after 12/15/17. If you are a calendar year end, it applies this year!

Early adoption is permitted, however, if early adopted, all of the regular transition provisions must be applied.

Transition:

- In the year of adoption, must apply all provisions.
- For comparative years presented, apply all provisions, except can choose not to present:
    - Analysis of expenses by nature and function*, and/or
    - Disclosures around liquidity and availability of resources
        - **unless already required to do so under current GAAP*
- Example of early adoption:
    - NFP chooses to early adopt in CY 2017
    - NFP must apply <u>all</u> provisions to CY 2017 financials
    - NFP presents comparative financials for CY 2016; must apply all provisions to the CY 2016 financials, except NFP can choose not to present:
        - Analysis of expenses by nature and function, and/or
        - Disclosures around liquidity and availability of resources

NFPs are permitted to make many of the changes within the ASU without early adopting.

The only changes that **cannot** be made without formally adopting the ASU are:

- Presenting one class of restricted net assets (i.e., consolidating temporarily and permanently restricted net assets into net assets with donor restrictions)
- Underwater endowment accounting
- Eliminating disclosures of investment return components and netted expenses
- Eliminating requirement to provide indirect reconciliation if using the direct method for operating cash flows

Required disclosures:

- In year of adoption, <u>disclose</u> the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.
  Auditor's reports:
- In year of adoption, include an <u>emphasis-of-matter paragraph</u> in the auditor's report if the adoption results in changes that have a material effect on the financial statements (AU-C 708.07)

Overall Implementation Considerations and Next Steps

- Read the ASU
- Identify the individual(s) who will lead the implementation of the ASU
- Ensure all individuals attend training to understand the changes required by the ASU
- Discuss the impact of the new changes on audit timing and planning with your auditors
- Make a practice run by recasting your last audited FS and notes
- Decide: early adopt, wait, or two-stage?

Changes to Nonprofit Revenue Recognition: Updates to ASC 958-605 – Accounting for Contributions Received and Contributions Made

NOTE: Final ASU has not yet been issued. All information is currently based on the exposure draft issued. ASU is currently in "fatal flaw" review with a target release date of Q2 2018.

On August 3, 2017, FASB issued a proposed update related to the accounting for contributions received and contributions made. The ASU was issued to address the difficulty and diversity in practice related to two issues:

- Issue 1: Characterizing grants and similar contracts with government agencies and others as (i) reciprocal transactions (exchanges) or (ii) nonreciprocal transactions (contributions)
- Issue 2: Distinguishing between conditional and unconditional contributions.

The comment period ended on November 1, 2017 and the ASU in currently in the "fatal flaw" review period, with a targeted release date of Q2 2018.

Scope of the ASU

Accounting for contributions is an issue primarily for not-for-profit (NFP) entities because contributions are a significant source of revenue for many of those entities.

However, the amendments in this proposed Update would apply to all entities, including business entities, that receive or make contributions of cash and other assets, including promises to give within the scope of Subtopic 958-605 and contributions made within the scope of Subtopic 720-25, Other Expenses—Contributions Made.

Although the guidance applies to both contributions made and contributions received, the intent is simply to have both the recipient and the resource provider apply the same

guidance. There is no intention for the entities to trach each other's accounting to achieve the same reporting results.

The proposed amendments would not apply to transfers of assets from the government to business entities.

NOTE: The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 956-605 is NOT a factor for determining whether an agreement is within the scope of that guidance.

Issue 1: Grants and Contracts: Reciprocal vs. Nonreciprocal

Many NFPs treat federal grants/contracts with governmental entities as exchanges, regardless of the substance of the transaction.

Some equate the government with general public

- i.e., the government is merely "purchasing" benefits for taxpayers that it would otherwise have to provide itself
- Issue is whether government receives direct commensurate value in return (because the public benefits)

Many believe the government doesn't give "contributions" i.e., it is not within the government's purview to make philanthropic decisions or make contributions using taxpayer monies

Who receives the benefit?

When discussing reciprocal vs. nonreciprocal, it all comes down to who receives the benefit.

Reciprocal = Exchange

Nonreciprocal = Nonexchange/contribution

The current practice is that it is an exchange transaction if

- There is direct commensurate value to the resource provider
- Benefit is received by specified third parties
- Benefit is received by the general public

Under the proposed clarification,

- There is an exchange transaction if:
    - There is direct commensurate value to the resource provider
    - Benefit is received by specified third parties if the Government or resource provider is a 3rd party payer on behalf of an identified customer
        - Examples would include a scholarship paid on behalf of an identified student's tuition obligation and payments under Medicare and Medicaid programs for an identified patient.
- The transaction is nonexchange if:
    - The benefit is received by specified third parties but the Government or resource provider is NOT a 3rd party payer on behalf of an identified customer
    - The benefit is received by the general public.

Reciprocal vs Nonreciprocal – Key Clarifications

NOTE: The following is an excerpt directly from the Exposure Draft:

The amendments in this proposed Update would clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The proposed amendments would clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred on the basis of the following:

1. A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
2. Execution of a resource providers' mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

The amendments in this proposed Update would clarify that, consistent with current GAAP, in instances in which a resource provider is not itself receiving commensurate value for the resources provided, an entity must determine whether a transfer of assets

represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer. If so, other guidance (for example, Topic 606) would apply.

Issue 2: Conditional vs Unconditional Contributions

Once it has been established that there is a contribution, the second issue is whether the contribution is conditional or unconditional. Currently, stakeholders find it difficult to distinguish between conditional and unconditional contributions, especially when funds are provided with certain outcome stipulations, but no specified return policy. This has led to significant diversity in application. Additionally, there is diversity in application regarding the likelihood of failing to meet a condition is remote.

- ◊ Some NFPs believe any condition within their control has remote likelihood of not being met
- ◊ Other NFPs believe that administrative or other trivial "conditions" prevent recognition until satisfied

The amendments in this proposed Update could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP. For this reason, clarifying the guidance about whether a contribution is conditional or unconditional is important because such classification affects the timing of contribution revenue recognition.

Under the proposed guidance, for a *donor-imposed* condition to exist, it must have BOTH:

- A right of return or release
- A barrier

Indicators to Determine a Barrier

Indicators are used to guide the assessment of whether an agreement contains a barrier. Depending on the facts and circumstances, some indicators may be more significant than others, and no single indicator is determinative. The indicators include:

1. The inclusion of a measurable performance-related barrier or other measurable barrier. Examples of measurable performance-related barriers include a

requirement that indicates that a recipient's entitlement to transferred assets is contingent upon the achievement of a certain level of service, an identified number of units of output, or a specific outcome. An example of another measurable barrier is a stipulation that the recipient is entitled to the assets only upon the occurrence of an identified event (for example, a matching requirement).

2. The extent to which a stipulation limits discretion by the recipient on the conduct of an activity. Limited discretion by the recipient is more specific than the general activity being conducted by the recipient or the time frame in which the contribution must be used. Examples of limited discretion could include a requirement to follow specific guidelines about qualifying allowable expenses, a requirement to hire specific individuals as part of the workforce conducting the activity, or a specific protocol that must be adhered to.
3. Whether a stipulation is related to the purpose of the agreement. This indicator generally excludes administrative tasks and trivial stipulations.

When is Revenue/Expense Recognized?

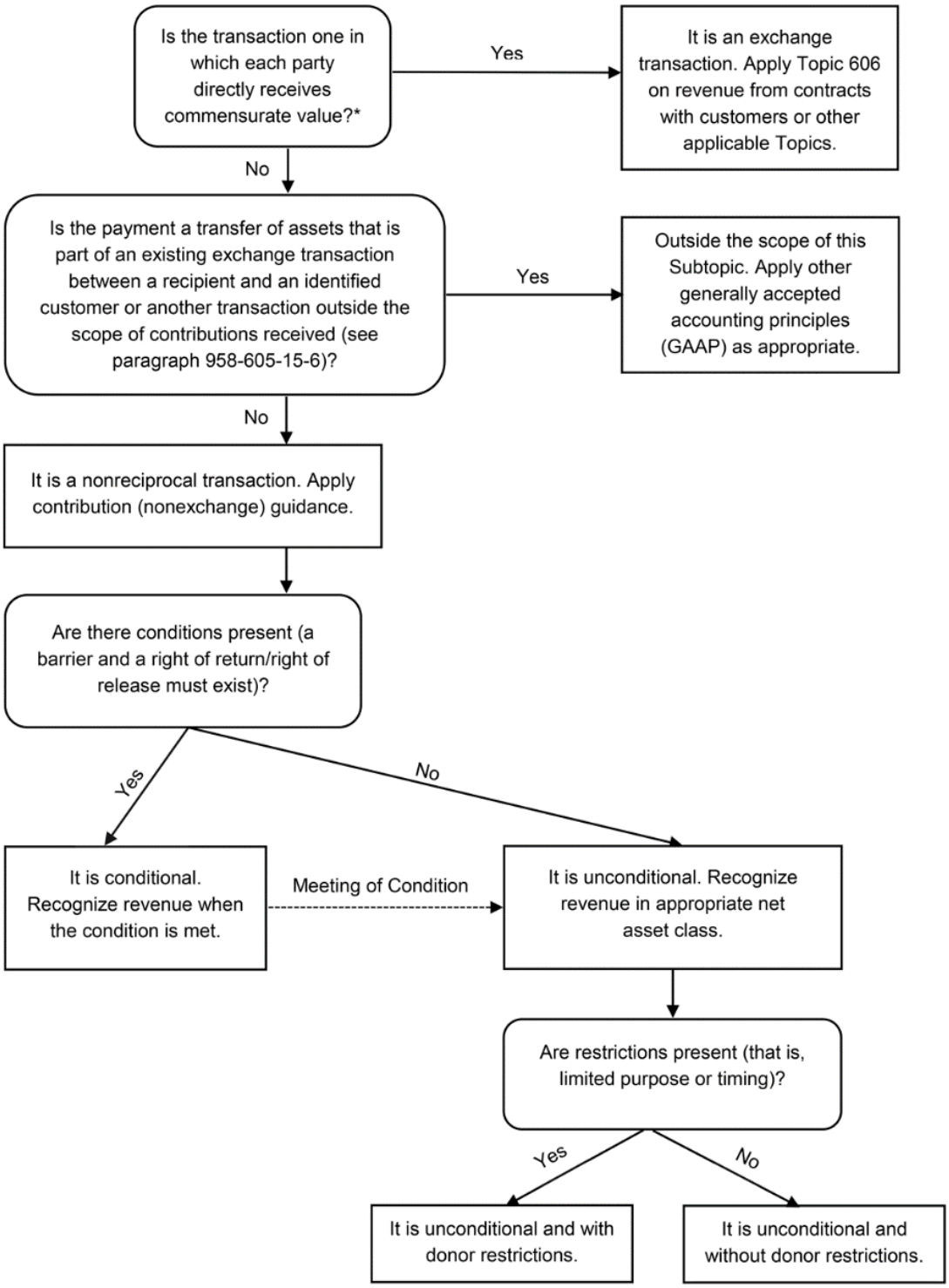
Resource Recipients

- When the contribution is no longer conditional
  - No longer a right of return or release
  - No longer a barrier
- Funds received in advance would be recorded as a liability in the recipient's books

Resource Providers (Donors)

- Contributions made should generally be recognized by the donor at the same time the done recognizes the contribution received
  - Donor does not recognize until the contribution has become unconditional
  - Follows same determination criteria as donee

DRAFT Revenue Recognition Decision Process



*See paragraph 958-605-55-6 for guidance about transactions that are in part an exchange and in part a contribution.

Note that resource providers would apply a similar decision making process for recognizing expenses as the decision making process in the revenue recognition process tree.

Transition Approach

The amendments in this proposed Update would be applied on a modified prospective basis in the first set of financial statements following the effective date to agreements that are either:

1. Not completed as of the effective date
2. Entered into after the effective date.

A completed agreement is an agreement for which all the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance (for example, Topic 605, Topic 958, or other Topics).

The amendments in this proposed Update would be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results would be restated, and there would be no cumulative-effect adjustment to the opening balance of net assets or retained earnings at the beginning of the year of adoption. Under this approach, an entity would be required to disclose both:

1. The nature of and reason for the accounting change
2. An explanation of the reasons for significant changes in each financial statement line item in the current annual or interim period resulting from applying the amendments instead of the previous guidance.

Effective Date

For **resource recipients**, a public business entity and an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments to annual periods beginning after **June 15, 2018**, including interim periods within those annual periods. All other entities should apply the amendments to annual periods beginning after **December 15, 2018,** and interim periods within annual periods beginning after **December 15, 2019.**

Early adoption of the amendments in this proposed Update would be permitted irrespective of the early adoption of the amendments in Update 2014-09 (Revenue Recognition).

For resource providers, a public business entity and an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments in this Update to annual periods beginning after **December 15, 2018**, including interim periods within those annual periods. All other entities should apply the amendments to annual periods beginning after **December 15, 2019**, and interim periods within annual periods beginning after **December 15, 2020**.

ASC TOPIC 958-605-25: Transfers of assets involving a not- for-profit organization that raises or holds contributions for others

Important definitions included in ASC Topic 958-605-25

Variance Power - The unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party.

- Variance power: the unilateral power to redirect the use of the transferred assets to another beneficiary
- Unilateral power: the ability of the community foundation to override the donor's instructions without approval from the donor, the specified beneficiary, or any other interested party
- Explicitly grants: explicitly referring to the community foundation's unilateral power to redirect the use of the assets in the instrument transferring the assets

The definition of variance power is extremely important. Without variance power, a CF would be considered an intermediary or agent, and therefore not a donee (no contribution revenue would be recorded.)

Per ASC 958-605-25-25 through 26, a recipient entity that is directed by a donor to distribute the transferred assets, the return on investment of those assets, or both to a specified unaffiliated beneficiary acts as a donee, rather than an agent, trustee, or intermediary, if the donor explicitly grants the recipient entity variance power—that is, the unilateral power to redirect the use of the transferred assets to another beneficiary.

Although variance power has the appearance of being conditional, the asserted condition is not effective for the following reasons:

a. The condition can be substantially met solely by a declaration of the governing board of the recipient entity that states that a distribution to a specified beneficiary is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or not-for-profit entities (NFPs) being served.
b. The variance power is unilateral—exercise of the power does not require approval from the donor, beneficiary, or any other interested party.

A recipient entity that is explicitly granted variance power has the ability to use assets it receives to further its own purpose from the date it accepts the assets. In that situation, the recipient entity shall account for receipt of funds by recognizing an asset and corresponding contribution revenue unless the transfer is revocable, repayable, or reciprocal as described in paragraph 958-605-25-33.

Impact on NFP beneficiary organizations includes requirements for financial statement disclosures that state:

- The identity of the recipient organization (community foundation) to which the transfer was made
- Whether the variance power was granted and the terms
- The aggregate amount recognized in the Statement of Financial Position (Balance Sheet) for those transfers and whether that amount is recorded as an interest in the net assets of the recipient entity or as another asset (for example, as a beneficial interest in assets held by others or a refundable advance).
- Disclosures required in ASC Topic 820—Fair Value Accounting

Fair Value Measurement (ASC Topic 820)
NOTE: Section has been updated to reflect ASU 2015-07 and ASU 2016-19 – effective calendar year 2017, FY 2018

This Topic explains how to measure fair value for financial reporting. It does not require fair value measurements - those are required or permitted by other Topics. For example, for nonprofits – ASC 958-320 requires investments securities be reported at FMV rather than historical cost.

FASB made it clear it is not intended to establish valuation standards or affect valuation practices outside of financial reporting.

ASC Topic 820-10 (formerly SFAS 157): Fair Value Measurements

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Establishes a framework for measuring fair value, a principal market or the most advantageous market, without regard to transaction costs
- Requires certain disclosures about fair value measurements

Again, this standard is attempting to achieve consistency within the sectors where there were different definitions of fair value, and limited guidance was available to both the investment community and the accounting profession.

Fair Value defined:
The price that would be received to SELL [EXIT PRICE] an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this definition, the emphasis is on exit price – the idea being that entities do not necessarily purchase something at the same price they might sell something. This required the definition of:

1. EXIT PRICE – The price that would be received to sell an asset or paid to transfer a liability (equal to the FV definition)
2. ORDERLY TRANSACTION - A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or

liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

3. MARKET PARTICIPANTS - A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
    1. They are independent of each other (not related parties) although the price in a related party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
    2. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
    3. They are able to enter into a transaction for the asset or liability
    4. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.
4. MEASUREMENT DATE

Key Concepts of the Fair Value Framework

- Orderly transaction, not forced sale
- Exit in the most advantageous market, considered from perspective of reporting entity
- Highest and best use of asset, or credit standing for liability
- Active market – high transaction volume in which entity could sell asset
- Valuation techniques used must be market approach, income approach or cost approach

Establishing Fair Value

FASB establishes a fair value hierarchy that prioritizes the *inputs* (assumptions) used in valuation techniques into three broad levels, considering the relative reliability of the inputs used to determine fair value. Classifications are as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and

federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. It is important to note that some federal agency securities and corporate- debt issues do not have an active market because the exact same security does not trade often. As a result, these items might default to Level 2 by obtaining inputs for similar assets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets.
Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash-flow models, and similar techniques and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

IN SIMPLE TERMS:

- Level 1 – the highest and most preferable level of inputs are quoted market prices for identical items - will likely address all readily marketable securities.
- Level 2 – the next level that might be required for debt instruments that might not have traded on the balance sheet date will most likely look at trading in similar assets on the balance sheet date.
- Level 3 – is reserved for the most difficult to value items, those for which there are no observable inputs

PRACTICAL EXPEDIENT – NET ASSET VALUE (NAV)

ASC Topic 820-10 permits the use of the net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) as a practical expedient for estimating fair value of an investment. This practical expedient is to be applied on an investment by investment basis and is to be applied consistently.

A reporting entity is not permitted to use NAV as a practical expedient if as of the reporting entity's measurement date, it is probable that the reporting entity will sell the investment for an amount different from the NAV. A sale is considered probable only if

all of the following criteria have been met as of the reporting entity's measurement date:

a. Management, having the authority to approve the action, commits to a plan to sell the investment.

b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.

c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).

d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Investments measured at NAV should not be categorized within the fair value hierarchy, Although the investment is not categorized within the fair value hierarchy, a reporting entity may provide the amount measured using the NAV practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to the line items presented in the statement of financial position. Investments measured at NAV also have additional disclosure requirements as found in ASC 820-10-50.

ASC 820 Disclosures

The following is a summary of the disclosures required under ASC 820:

- Fair value of assets
- Level within the FV hierarchy (tabular)
  - Level I, Level II, Level III
- If the highest and best use of a nonfinancial asset differs from current use, must disclose
- Transfers between Level I and Level II
- For Level II and Level III:
  - Description of valuation techniques and inputs used
  - If a change in valuation approach or technique, the reason for that change

ASC 820 Disclosures – Level III

In addition to the disclosures previously discussed, additional information regarding Level III investments are required to be included as follows:

- Quantitative information regarding significant unobservable inputs used
- Reconciliation from opening to ending balances disclosing:
  - Total gains and losses for the period and the line item on the statement

of activities
  - Purchases, sales, issues, settlement (each separately)
  - Transfers in/out of Level III
- Total gains or losses for the period that is attributable to the change in unrealized gains or losses relating to assets still held at the end of the reporting period, and the line item in the statement of activities
- A description of the valuation processes used
- A narrative description of the sensitivity of the FV measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower FV measurement

Glossary, Acronyms, and Investment Definitions

Glossary, Acronyms, and Investment Definitions

Glossary

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

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

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

Administrative Fund: See *Operating Fund*.

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

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

Affinity Group: A separate and independent coalition of grantmaking institutions or individuals associated with such institutions that shares information or provides professional development and networking opportunities to individual grantmakers with a shared interest in a particular subject or funding area.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bricks and Mortar: An informal term indicating grants for buildings or construction projects.

Building Campaign: A drive to raise funds for construction or renovation of buildings and other physical structures.

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

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

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

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

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

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

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

Charitable Gift Annuity: A gift of cash or securities in exchange for the promise of lifetime income, immediate (CGA) or deferred (DCGA). A charitable gift annuity is a contract between the

donor and charity that is part charitable gift and part purchase of an annuity. The total assets of the charity back the payments.

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

Charitable Lead Trust: A charitable lead trust (CLT) pays the trust income to a charity first for a specified period, with the principal reverting to the donor or going to other person(s) at the end of the period. If it is established by will, it is known as a Testamentary Charitable Lead Trust (TCLT). Also called *Income Trust*.

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

Charitable Remainder Trust: A gift plan that provides income to one or more beneficiaries for their lifetimes, a fixed term of not more than 20 years, or a combination of the two. Assets, usually cash, securities, or real estate are transferred to a trust that pays income to the beneficiaries for the term of the trust. When the trust term ends, the remainder in the trust passes to the charity. Can be established as a Charitable Remainder Annuity Trust (CRAT) with a fixed payout or as a Charitable Remainder Unitrust (CRUT) with a variable payout. Can be established during the donor's lifetime (CRT) or by will (TCRT).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disqualified Person (Public Charity): As applied to public charities, the term disqualified person includes (1) organization managers, (2) any other person who, within the past five years, was in a position to exercise substantial influence over the affairs of the organization, (3) family members of the above, (4) businesses they control. In addition, investment advisors to assets of donor advised funds are disqualified persons and, if the charity has supporting organizations, disqualified persons of the supporting organizations are considered disqualified persons of the supported charity. Paying excessive benefits to a disqualified person results in the imposition of penalty excise taxes on that person and, under some circumstances, on the charity's board of directors. Donors and donor advisors are disqualified with regard to transactions with the relevant donor advised fund. Many of these transactions are completely prohibited. Also see *Intermediate Sanctions*.

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

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

Donee: See *Grantee*.

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

Donor-Advised Fund: Generally, a fund held by a community foundation where the donor, or a person or committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation's governing body must be free to accept or reject the recommendations. The specific legal definition may be found at www.cof.org/ppa.

Donor-Designated Fund: A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. The community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. See *Variance Power*.

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

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

Excise Tax: The annual tax of 1 or 2 percent of net investment income that must be paid to the IRS by private foundations.

Expenditure Responsibility: When a private foundation makes a grant to an organization that is not classified by the IRS as tax exempt under Section 501(c)(3) it is required by law to ensure that the funds are spent for charitable purposes and not for private gain or political activities. Special reports on the status of the grant must be filed with the IRS. Certain grants from donor advised funds also require this process.

Family Foundation: "Family foundation" is not a legal term, and therefore, it has no precise definition. Yet, approximately two-thirds of the estimated 40,000 private foundations in this country are believed to be family managed. The Council on Foundations defines a family foundation as a private foundation whose funds are derived from members of a single family. At least one family member must continue to serve as an officer or board member of the foundation, and as the donor, they or their relatives play a significant role in governing and/or managing the foundation throughout its life. Members decide themselves if they wish to categorize their private foundation as a family or independent foundation. In many cases, second- and third- generation descendants of the original donors manage the foundation. Most family foundations concentrate their giving locally, in their communities.

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

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

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

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

Financial Report: An accounting statement detailing financial data, including income from all sources, expenses, assets, and liabilities. A financial report may also be an itemized accounting that shows how grant funds were used by a donee organization. Most foundations require a financial report from grantees.

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

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

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

Form 990/Form 990-PF: The IRS forms filed annually by public charities and private foundations respectively. The letters *PF* stand for private foundation. The IRS uses this form to assess compliance with the Internal Revenue Code. Both forms list organization assets, receipts, expenditures, and compensation of officers. Form 990-PF includes a list of grants made during the year by private foundations.

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

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

Fund Balance: Using the analogy to “owner’s equity,” the fund balance represents the resources invested by the community.

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

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

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

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

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

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

Giving Pattern: The overall picture of the types of projects and programs that a donor has supported historically. The past record may include areas of interest, geographic locations, dollar amount of funding, and kinds of organizations supported.

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

Grantee: The individual or organization that receives a grant.

Grantor: See *Donor*.

Grassroots Fundraising: Efforts to raise money from individuals or groups from the local community on a broad basis. Usually an organization does grassroots fundraising within its own constituency—people who live in the neighborhood served or clients of the agency's services. Grassroots fundraising activities include membership drives, raffles, bake sales, auctions, dances, and other projects. Foundation managers often feel that successful grassroots fundraising indicates that an organization has substantial community support.

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

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

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

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

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

Income Trust: See *Charitable Lead Trust*.

Independent Foundation: One individual usually establishes these private foundations, often by bequest. They are occasionally termed "non-operating" because they do not run their own programs. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent foundations, such as the Ford Foundation, are no longer governed by members of the original donor's family but are run by boards made up of community, business, and academic leaders. Private foundations make grants to other tax-exempt organizations to carry out their charitable purposes. Private foundations must make charitable expenditures of approximately 5 percent of the market value of their assets each year. Although exempt from federal income tax, private foundations must pay a yearly excise tax of 1 or 2 percent of their net investment income. The Rockefeller Foundation and the John D. and Catherine T. MacArthur Foundation are two examples of well-known "independent" private foundations.

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

Intermediate Sanctions: Penalty taxes applied to disqualified persons of public charities that receive an excessive benefit from financial transactions with the charity. An excessive benefit may result from overcompensation for services or from other transactions such as charging excessive rent on property rented to the charity. Unlike private foundations, public charities are generally not barred from engaging in financial transactions with disqualified persons as long as the transaction is fair to the charity. However, see *www.cof.org/paa* for some donor advised fund and supporting organizations transactions that are prohibited. Penalty taxes also may apply to organization managers, such as the charity's board, that knowingly approve an excess benefit transaction. Also see *Disqualified Person*.

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

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

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

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

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

Letter of Inquiry: A brief outline of an organization's activities and a request for funding sent to a prospective donor to determine if there is sufficient interest to warrant submitting a full proposal. This saves the time of the prospective donor and the time and resources of the prospective applicant. Also referred to as a *Preliminary Proposal*.

Letter of Intent: A grantor's letter or brief statement indicating intention to make a specific gift.

Leverage: A method of grantmaking practiced by some foundations. Leverage occurs when a small amount of money is given with the express purpose of attracting funding from other sources or of providing the organization with the tools it needs to raise other kinds of funds. Sometimes known as the "multiplier effect."

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

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

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

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

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

Loaned Executives: Corporate executives who work for nonprofit organizations for a limited period of time while continuing to be paid by their permanent employers.

Lobbying: Efforts to influence legislation by influencing the opinion of legislators, legislative staff, and government administrators directly involved in drafting legislative proposals. The Internal Revenue Code sets limits on lobbying by organizations that are exempt from tax under Section 501(c)(3). *Public* charities may lobby as long as lobbying does not become a substantial part of their activities.

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

Matching Gifts Program: A grant or contributions program that will match employees' or directors' gifts made to qualifying educational, arts and cultural, health, or other organizations. Each employer or foundation establishes specific guidelines. Some foundations also use such a program for their trustees.

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

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

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

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

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

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

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

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

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

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

Operating Foundation: Also called Private Operating Foundations, operating foundations are private foundations that use the bulk of their income to provide charitable services or to run charitable programs of their own. They make few, if any, grants to outside organizations. To qualify as an operating foundation, the organization must follow specific rules in addition to the applicable rules for private foundations. The Carnegie Endowment for International Peace and the Getty Trust are examples of operating foundations.

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

Operating Support: See *Operating Contribution*.

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

Organization Endowment Fund: See *Agency Endowment Fund*.

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

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

Payout Requirement: The minimum amount that a private foundation is required to expend for charitable purposes (includes grants and necessary and reasonable administrative expenses). In general, a private foundation must pay out annually approximately 5 percent of the average market value of its assets.

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

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

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

Planned Gift: "Any gift given for any amount and for any purpose, whether for current or deferred use, which requires the assistance of a professional staff person, a qualified volunteer, or the donor's advisors to complete. In addition, it includes any gift that is carefully considered by a donor in light of estate or financial plans." (Robert F. Sharpe & Co.)

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

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

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

Preliminary Proposal: See *Letter of Inquiry*.

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

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

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

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

Program Officer: Also referred to as a corporate affairs officer, program associate, public affairs officer, or community affairs officer, this staff member of a foundation or corporate giving program may do some or all of the following: recommend policy, review grant requests, manage the budget, and process applications for the board of directors or contributions committee.

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

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

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

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

Public Charity: A nonprofit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code and that receives its financial support from a broad segment of the general public. Religious, educational, and medical institutions are deemed to be public charities. Other organizations exempt under Section 501(c)(3) must pass a public support test to be considered public charities, or must be formed to benefit an organization that is a

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

Public Foundation: The IRS recognizes public foundations, along with community foundations, as public charities. Although they may provide direct charitable services to the public as other nonprofits do, their primary focus is on grantmaking.

Public Support Test: There are two public support tests, both of which are designed to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a)(1) or 170(b)(1)(A)(vi) for the sections of the Internal Revenue Code where it is found, is for charities such as community foundations that mainly rely on gifts, grants, and contributions. To be automatically classed as a public charity under this test, organizations must show that they normally receive at least one-third of their support from the general public (including government agencies and foundations). However, an organization that fails the automatic test still may qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics—such as a broad-based board—that make it sufficiently "public." The second test, sometimes referred to as the section 509(a)(2) test, applies to charities, such as symphony orchestras or theater groups, that get a substantial part of their income from the sale of services that further their mission, such as the sale of tickets to performances.

These charities must pass a one-third/one-third test: They must demonstrate that their sales and contributions normally add up to at least one-third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Social Investing: Also referred to as Ethical Investing and Socially Responsible Investing, this is the practice of aligning a foundation's investment policies with its mission. This may include making program-related investments and refraining from investing in corporations with products or policies inconsistent with the foundation's values.

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

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

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

Supporting Organization: A charity that is not required to meet the public support test because it supports a public charity. To be a supporting organization, a charity must meet one of three complex legal tests that demonstrate, at minimum, that the organization being supported has some influence over the actions of the supporting organization. Although a supporting organization may be formed to benefit any type of public charity, the use of this form is particularly common in connection with community foundations.

Supporting organizations are distinguishable from donor advised funds because they are distinct legal entities.

Tax-Exempt Organizations: Organizations that do not have to pay state and/or federal income taxes. Federal tax-exempt status can be obtained by applying to the IRS, and in most states, for state income tax exemptions, to the state attorney general's office.

Technical Assistance: Operational or management assistance given to a nonprofit organization. It can include fundraising assistance, budgeting and financial planning, program planning, legal advice, marketing, and other aids to management. Assistance may be offered directly by a foundation or corporate staff member or in the form of a grant to pay for the services of an outside consultant. See *In-Kind Contribution*.

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

Tipping: A situation that occurs when a gift or grant is made that is large enough to significantly alter the grantee's funding base and cause it to fail the public support test. Such a gift or grant results in "tipping" or conversion from public charity to private foundation status.

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

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

Trust: A legal device used to set aside the money or property of one person for the benefit of one or more persons or organizations.

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

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

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

Unrestricted Fund: For a community foundation, an unrestricted fund is one that is not specifically designated to particular uses by the donor, or for which restrictions have expired or been removed.

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

Variance Power: A distinguishing characteristic of community foundations, the variance power permits the community foundation's governing body to redirect resources in component funds if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

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

Acronyms and Other Abbreviations

501(c)(3)	IRS designation for public serving nonprofit organizations exempt from income tax and eligible to receive tax-deductible gifts
501(c)(4)	IRS designation for advocacy organizations (nonprofit organizations exempt from income tax but not eligible to receive tax-deductible gifts because they engage in advocacy-type efforts)
990	Form used by the IRS for annual reporting by nonprofit organizations
990 PF	Form 990 used by the IRS for private foundations

A

AAFRC	American Association of Fund Raising Counsel—group of consultants who specialize in fundraising—the AAFRC Trust publishes *Giving USA*
ACFRE	Advanced Certified Fund Raising Executive—certification/credential for fund raisers
AFFABLE	Affiliates Listserve
AdNet	Advancement Network
AFP	Association of Fundraising Professionals (formerly NSFRE)—professional organization for fundraisers
AGI	adjusted gross income
APRA	Association of Professional Researchers for Advancement (former name: American Prospect Research Association)—professional organization for people who scout out prospective donors

C

CCFE	Center for Community Foundation Excellence
CDC	community development corporations
CEONet	CEO Network
CF	community foundation

CFA	Community Foundations of America
CFI	Community Foundations Institute
CFLT	Community Foundations Leadership Team
CFRE	Certified Fund Raising Executive—certification/credential for fundraisers
CGA	charitable gift annuity
CLAT	charitable lead annuity trust
CLUT	charitable lead unitrust
CNP	Center on Nonprofits & Philanthropy—part of the Urban Institute, houses the NCCS, the national repository of data on the U.S. nonprofit sector
COF	Council on Foundations
CommA	Communications Network
CPI	Consumer Price Index
CRAT	charitable remainder annuity trust
CRUT	charitable remainder unitrust
CSC	Community Service Council
CSO	community service organization

D

DAF	donor-advised fund
DMA	Direct Marketing Association

E

EOMF	Exempt organization master file—IRS list of organizations exempt from taxes

F

FAOG	Fiscal and Administrative Officers Group
FAS	financial accounting standard
FASB	Financial Accounting Standards Board—sets the rules for nonprofit accounting
FBO	faith-based organization (a church, synagogue, mosque)
Fdn	foundation
FIMS	foundation information management system
FIS	financial information system—financial software used by some institutions
FP, FPO	for-profit, for-profit organization
FR, FR'g	fund raising

G

GRSO	grass-roots support organization
GSS	general social survey
GUSA	*Giving USA*—book of facts about the nonprofit sector, published annually by the AAFRC Trust

H

HR	human resources

I

IRA	individual retirement account
IRC	Internal Revenue Code—code used by the IRS; also International Red Cross
IRS	Internal Revenue Service
IS	INDEPENDENT SECTOR (written in all caps) – a national coalition of leaders from the nonprofit sector, engages in advocacy efforts and conducts research on the

nonprofit sector—publishes *Giving and Volunteering in the United States* and the *Nonprofit Almanac*

ISTR International Society for Third-Sector Research—international academic society for philanthropy researchers—official journal is *Voluntas*

M

MBOs mutual benefit organizations—type of nonprofit organization in which people pay to be a member, and the services are for the benefit of the members (ex: golf clubs, professional societies)

MOU memorandum of understanding—letter of agreement between parties

N

NAAG National Association of Attorneys Generals—group that wants to increase regulation of nonprofits, especially fund raising

NCCS National Center for Charitable Statistics—located at The Urban Institute, the national repository of data on the nonprofit sector in the United States

NCIB National Charities Information Bureau—rates nonprofits for donors

NCNA National Council of Nonprofit Associations

NCPG National Committee on Planned Giving

NDC non-distribution constraint—the legal regulation that specifies that a nonprofit organization may not distribute profits to its owners

NEA National Endowment for the Arts

NEH National Endowment for the Humanities

NFP (nfp) not-for-profit organization

NGO (ngo) non-governmental organization

NMA Nonprofit Management Association—trade association for consultants, recently merged into "The Alliance"

NML	*Nonprofit Management and Leadership*—one of the leading academic journals in the field
NNG	National Network of Grantmakers
NNUTrust	National Nonprofit Unemployment Trust
NPO	nonprofit organization
NPT	*NonProfit Times*—national monthly trade newspaper
NSFRE	National Society of Fund Raising Executives—professional organization for fund raisers (now called Association of Fundraising Professionals (AFP)
NSP	National Survey of Philanthropy—survey conducted in 1972-73, still the only source for much of what we know about philanthropy

O,P

PAN	Council on Foundation's Philanthropic Advisor Network
PAS	Philanthropic Advisory Service—part of the Better Business Bureau, rates the "quality" of charities
PD	program director
PGDC	Planned Giving Design Center
PGI	Philanthropic Giving Index—semi-annual survey
PRI	Philanthropic Research Institute—puts together the "GuideStar" database on nonprofits
ProNet	Program Officers Network

R

RAGs	regional association of grantmakers
RBF	Rockefeller Brothers Fund—a major foundation
RFP	request for proposals—an announcement of grant fund availability

S

SVP	Social Venture Partners

T

TCOP	The Center on Philanthropy at Indiana University

U

UMIFA	Uniform Management of Institutional Funds Act
UPMIFA	Uniform Prudent Management of Institutional Funds Act

W

WINGS	Worldwide Initiative for Grantmaker Support

Investment Definitions

Absolute Return Strategies: Are broadly described as investment approaches that attempt to profit regardless of the overall direction of the stock or bond market. This is accomplished using highly flexible investment strategies that permit the use of short selling and margin debt.

American Depository Receipt (ADR): A negotiable receipt issued by an American depository institution (i.e. bank) in lieu of underlying shares of a foreign based corporation held in custody overseas. Instead of buying shares in foreign markets, Americans can buy foreign shares in the U.S. in the form of an ADR, entitling the shareholder to all dividends and capital gains.

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

Asset Allocation: The process of designating funds between different asset classes (i.e., large cap equity, intermediate bonds, international equity, etc.)

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

Capitalization-Weighted Market Index: A market index in which the contribution of a security to the value of the index is a function of the security's market capitalization.

Commercial Paper: Short term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Commercial paper is unsecured and usually discounted although some are interest bearing. Standard & Poor's and Moody's assign ratings to commercial paper.

Commingled Fund: An investment fund, offered by a bank or insurance company, which is similar to a mutual fund in that investors are permitted to purchase and redeem units that represent a pool of securities.

Commodities: Bulk goods such as grains, metals, and foods traded on a commodities exchange.

Consumer Price Index (CPI): A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Among the CPI components are the cost of housing, food, transportation, and electricity.

Coupon Rate: An annualized dollar amount of bond interest expressed as a percentage of the bond's par value.

Current Yield: This bond characteristic is the ratio of the coupon to the current price.

Dow Jones Industrial Average: This price-weighted index consists of 30 New York Stock Exchange securities that span different industry sectors.

Derivative Securities: A security whose value is based primarily on the value of another underlying security such as a stock or bond index. The two most commonly used types of derivatives are futures and options. Derivative securities are generally used for hedging, speculation, or other portfolio management strategies.

Discount Rate: The rate used to calculate the present value of future cash flows in order to determine the current value of a security.

Dividend: Cash or stock payments made to stockholders by a corporation.

Dividend Yield: The current annualized dividend paid on a share of common stock expressed as a percentage of the current market price of the corporation's common stock.

Equity Style: A money manager's approach to investing based on their philosophy of the key determinants of stock price movements. There are three broad equity style categories: *value*, *growth*, and *market-oriented*.

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

Foreign Securities: Non U.S. securities traded on foreign equity or fixed income markets.

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

Hedged Equity: An investment approach where investment managers combine long equity positions with short equity positions. Market exposure can vary widely among managers and through time depending on the level of long and short exposure although most managers maintain net long positions. Managers may have a domestic equity focus, international equity focus and/or sector focus.

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

Index : A statistical composite that measures changes in the economy or in financial markets.

Inflation: The rate of change in a price index over a period of time. Usually gauged by the Consumer Price Index (CPI) or the Gross Domestic Product (GDP) Price Deflator.

International Equity: An asset class that encompasses the risk and return characteristics of investment in companies domiciled outside of the United States. These foreign equity securities are traded on foreign exchanges.

Investment Grade: A bond with a Standard & Poor's rating of AAA to BBB and/or a Moody's rating of Aaa to Baa. Standard & Poor's and Moody's are independent ratings agencies.

Lehman Government/Corporate: An index that encompasses a full range of domestic fixed income maturities including investment grade corporate and U.S. government (treasuries and agencies) securities.

Large Cap Equity: An asset class that encompasses the return and risk characteristics of domestic equity securities that have a market cap of $10 billion or more.

Lehman Intermediate Government/Corporate: An index that encompasses domestic fixed income maturities in the range of 1 to 9.99 years including investment grade corporate and U.S. government (treasuries and agencies) securities.

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

Moving Average: An average of security or commodity prices constructed on a period as short as a few days or long as several years that is used to show trends.

Market Capitalization: The value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding common shares by the current market price. There are three main classes of market capitalization: large, mid, and small. The approximate thresholds are: greater than $10 billion (large), $2 billion-$10 billion (mid), and $300 million to $2 billion (small).

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

Modified Duration: Modified Duration is a measure of the price volatility of fixed income securities. It provides an approximation of the percentage price change for incremental changes in yield.

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

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

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

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

Passive Management: A strategy of holding a portfolio of generic securities, without attempting to add value through security selection. The index fund is the simplest type of passive portfolio. An index fund is designed to mirror the performance of a published benchmark.

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

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

Price-Weighted Market Index: A market index in which the contribution of a security to the value of the index is a function of the security's current market price.

Private Placement: The direct sale of a newly issued security to one or a small number of investors.

Quality Rating: Evaluation of securities investment and credit risk by rating services such as Moody's Investors Service and Standard & Poor's Corporation.

Relative Standard Deviation: The standard deviation of a portfolio divided by the standard deviation of the portfolio's benchmark.

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

Risk Adjusted Return: The return on an asset or portfolio, modified to explicitly account for the risk to which the asset or portfolio is exposed.

Russell 3000: This index consists of the largest 3,000 U.S. stocks by market capitalization, representing approximately 97 percent of the U.S. equity market. Together, the Russell 1000 and the Russell 2000 make up the Russell 3000.

Short Sales: The sale of a security that is not owned by an investor, but rather is borrowed from a broker. The investor eventually repays the broker in kind by purchasing the same security in a subsequent transaction.

Small Cap Equity: An asset class that encompasses the return and risk characteristics of domestic equity securities that have a market of $300 million to $2 billion.

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

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

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

Unregistered Stock: A stock or bond that is not registered with the Securities and Exchange Commission and therefore cannot be sold in the public market.

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

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