



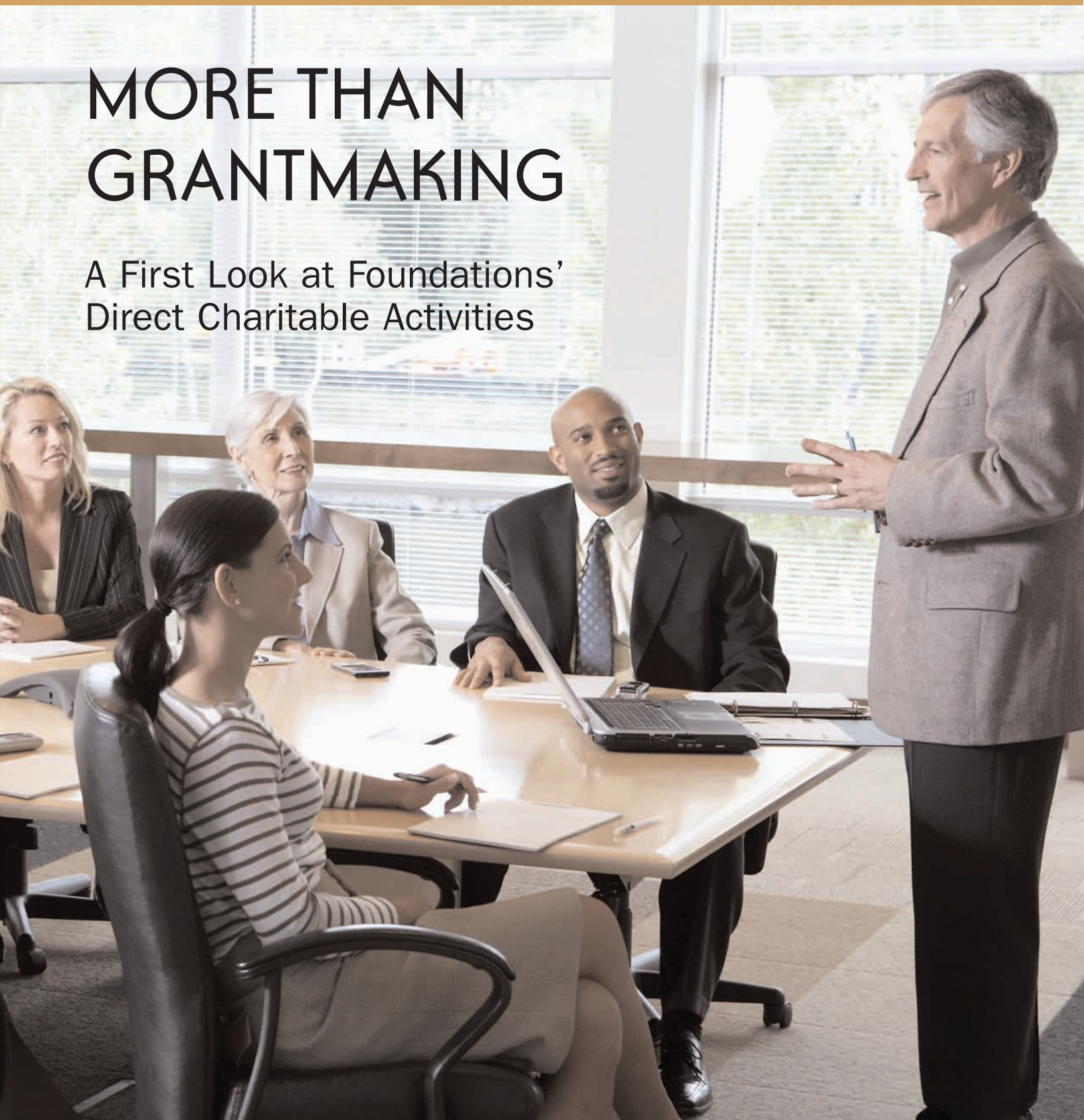
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NOVEMBER 2007

# MORE THAN GRANTMAKING

A First Look at Foundations'  
Direct Charitable Activities



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- ◆ Strengthen education leadership to improve student achievement
- ◆ Enhance out-of-school learning opportunities
- ◆ Expand participation in arts and culture.

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*The Foundation Center's mission is to strengthen the nonprofit sector by advancing knowledge about U.S. philanthropy.*

Established in 1956, and today supported by more than 600 foundations, the Foundation Center is the nation's leading authority on philanthropy, connecting nonprofits and the grantmakers supporting them to tools they can use and information they can trust. The Center maintains the most comprehensive database on U.S. grantmakers and their grants—a robust, accessible knowledge bank for the sector. It also conducts research on trends in foundation growth, giving, and practice offers education and training programs designed to advance philanthropy at every level. The Center's web site receives more than 47,000 visits each day, and thousands of people gain access to free resources in its five regional library/learning centers and its national network of more than 340 Cooperating Collections. For more information, please visit [foundationcenter.org](http://foundationcenter.org) or call (212) 620-4230.

Download *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities* at [foundationcenter.org/gainknowledge/research/specialtrends](http://foundationcenter.org/gainknowledge/research/specialtrends).

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# MORE THAN GRANTMAKING

## A First Look at Foundations' Direct Charitable Activities

### Introduction

Historically, foundations have been known for their grantmaking programs. In fact, the language used in the 1969 Tax Reform Act, which imposed a payout minimum for private foundations for the first time and introduced reporting requirements along with other regulations, was based on the assumption that almost all foundations would use grantmaking as their main or only means of making charitable distributions.<sup>1</sup>

Even then, however, a number of foundations engaged in what the 1969 regulations defined as “direct charitable activities” to accomplish their missions. For example, some foundations provided technical assistance to grantees as a way of ensuring greater impact, while others operated full-scale research programs to inform public policy.

Although anecdotal evidence suggests that these non-grantmaking charitable activities have been growing, they are difficult to track, owing to limitations in the primary source document for such information, the IRS Form 990-PF. This report presents findings from a survey in early 2007 of more than 900 foundations ranked among the top 3,000 in terms of total giving as of 2005. The survey sheds light on the extent and nature of foundations' involvement in direct charitable activities (referred to occasionally as “DCAs” in the text), the impact of these programs on foundations' administrative expenses, and changes in the use of this practice in recent years.

This report focuses mainly on independent and family foundations, which represent a large majority of survey respondents and foundations with DCAs.

### Key Findings

One quarter of surveyed\* independent and family foundations conduct direct charitable programs and activities. Page 2

Larger foundations are far more likely to conduct direct charitable activities; indeed, fully half of surveyed foundations that make grants of \$10 million or more report such activities. Page 2

Foundations engage in three main types of DCAs: convening conferences, providing technical assistance, and supporting staff service on advisory boards of other charities. Page 3

Foundations conduct direct charitable programs mainly to promote organizational and field-wide effectiveness, with an emphasis on building capacity and encouraging knowledge sharing among grantees, promoting grantmaker collaborations, and advancing knowledge about a specific field. Page 4

Three-fifths of independent and family foundations involved in DCAs increased their levels over the past five years, and three-fourths believe that this practice is becoming more widespread. Page 5

Spending by independent and family foundations for DCAs ranges from a small fraction of their overall charitable administrative expenses to more than 25 percent for about one in four. Page 6

While more than a third of independent and family foundations rely at least to some extent on consultants to conduct their DCAs, foundation staff plays by far the principal role. Page 6

Community foundations reported far higher levels of DCAs (61 percent) than did either independent foundations (25 percent) or corporate foundations (16 percent). Page 7

\*All findings in this report are based on a sample of foundations that ranked among the top 3,000 in terms of total giving as of 2005.

## How Prevalent Are Direct Charitable Activities at Independent and Family Foundations?

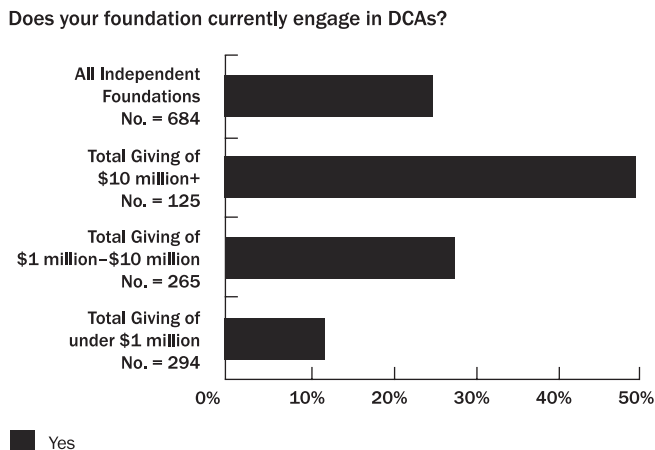
Whether a foundation conducts DCAs depends to a large extent upon its size. The larger the foundation, the more likely it is to conduct charitable activities in addition to making grants. While 25 percent of the independent and family foundation survey respondents conduct DCAs, the share was 50 percent among those with giving of \$10 million or more and just 12 percent for those with giving of less than \$1 million (Figure 1).

## What About Community and Corporate Foundations?

As public charities, community foundations do not complete IRS Form 990-PF and are not required to report DCAs on Form 990. In our survey, DCAs were reported by 61 percent of community foundations, a much higher level than that reported by independent and family foundations (25 percent). But since their charitable expenditures are reported to the IRS differently from those of private foundations, community foundations are treated separately later in this report (see page 7).

Corporate foundations, which do file Form 990-PF, did not report sufficient levels of DCAs in the survey to permit separate analyses of these foundations in this report. Just 17 out of 105 large corporate foundations in the sample (16 percent) indicated that they engaged in DCAs.

**FIGURE 1. Independent Foundation Engagement in Direct Charitable Activities, by Foundation Size**



Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, 2007.

## What Are Direct Charitable Activities?

The Internal Revenue Service provides a detailed listing of the types of direct charitable activities (DCAs) that private foundations may report.<sup>2</sup> For the survey, these activities were grouped into seven categories:

- Convening educational conferences that are not limited to a foundation's own staff and board
- Providing technical assistance/training to grantees and other charitable organizations
- Supporting the service of foundation staff on advisory boards of other charities or public commissions
- Conducting research that goes beyond assessment of potential grants
- Publishing and disseminating reports on research findings, education, conferences, etc., of broad interest to the public
- Maintaining facilities used for direct services
- Operating direct service programs

Foundations were also able to write in other types of DCAs.

See page 9 of this report for additional details on how the Foundation Center gathered data on these activities.

## Direct Charitable Activities: Selected Examples

Examples of the non-grantmaking charitable activities of several foundations are highlighted throughout this report (►). They illustrate the diverse kinds of DCAs conducted by U.S. foundations. The descriptions are derived from foundation reports, web sites, and tax returns, or from information provided directly to the Foundation Center for public reporting.

- **The Annie E. Casey Foundation** seeks to foster public policies, human service reforms, and community supports that more effectively meet the needs of vulnerable children and families. It pursues its mission through a mix of grantmaking and direct service programs. Examples of the latter include Casey Family Services, the foundation's largest operating program, which provides a comprehensive range of services to vulnerable children, and KIDS COUNT, which collects and disseminates national and state-level data on the condition of children and families and tracks changes in indicators from year to year. Casey also provides technical assistance, consulting, and other outreach activities to grantee agencies working to build supportive communities that strengthen families.

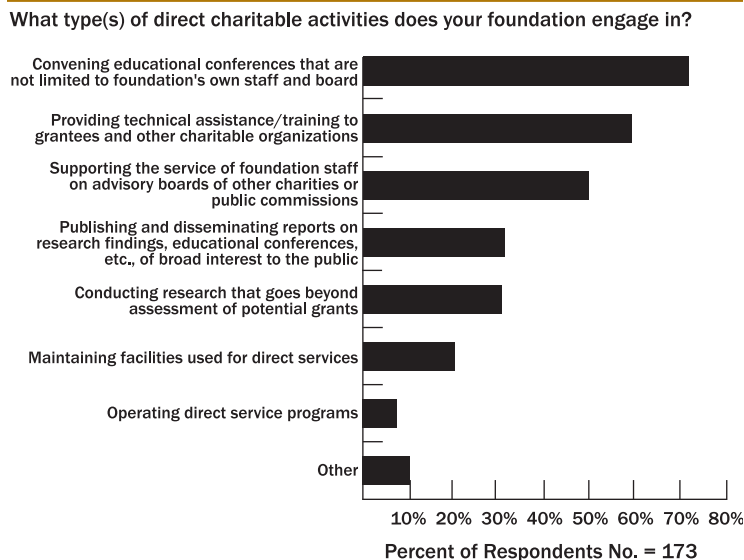
Learn more at [www.aecf.org](http://www.aecf.org)

## What Types of Direct Charitable Activities Do Foundations Conduct?

Foundations engage in three main types of non-grantmaking charitable activities: convening conferences and other events that serve a broad audience (reported by 72 percent of surveyed independent and family foundations that engage in DCAs), providing technical assistance and/or training to grantees (59 percent), and supporting the service of foundation staff on advisory boards of other charities or public commissions (50 percent) (Table 1 and Figure 2). In addition, roughly one-third of independent and family foundations (31 percent) cited research-related activities, such as conducting research that goes beyond the assessment of grants or publishing and disseminating reports of broad interest to the public.

There is a very strong correlation between the size of a foundation and the range of DCAs in which it engages (see Table 1). Across most DCA categories, the largest foundations (those with annual giving of \$10 million or more) reported levels of activity that were 15 to 25 percentage points higher than those of the smallest foundations (annual giving of \$1 million or less) in the sample. For example, among independent and family foundations in the highest giving category, 75 percent convened educational conferences or other events, compared to 53 percent among those in the lowest giving category. In addition, nearly half (46 percent) of foundations in the largest giving category said they maintained facilities used for direct services, while none of the 36 independent and family foundations in the smallest giving category reported this practice.

**FIGURE 2. Types of Direct Charitable Activities for Independent Foundations**



Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*.

➤ **The California Endowment** seeks to expand access to affordable, quality health care for underserved individuals and communities and to promote improvements in the health status of all Californians. Among its largest direct charitable activities in 2005 was the One-e-App technology solution, a web-based system the endowment developed and implemented, which is designed to screen and enroll eligible individuals in California in publicly funded health and social service programs. It also engaged consultants to conduct evaluations of a few of its major programs for the purpose of collecting and disseminating information on promising practices, models, and outcomes; measuring progress toward outcomes; and providing technical assistance to grantees to build their capacity to evaluate their programs' successes and sustainability.

Learn more at [www.calendow.org](http://www.calendow.org)

**TABLE 1. Types of Direct Charitable Activities for Independent Foundations, by Foundation Size**

What type(s) of direct charitable activities does your foundation engage in?

	Independent Foundations		Total Giving of \$10 million+		Total Giving of \$1 million–\$10 million		Total Giving Under \$1 million	
	No. = 173		No. = 63		No. = 74		No. = 36	
	No.	%	No.	%	No.	%	No.	%
Convening educational conferences or cultural events that are not limited to foundation's own staff and board	124	71.7	47	74.6	58	78.4	19	52.8
Providing technical assistance/training to grantees and other charitable organizations	102	59.0	44	69.8	40	54.1	18	50.0
Supporting the service of foundation staff on advisory boards of other charities or public commissions	86	49.7	35	55.6	40	54.1	11	30.6
Publishing and disseminating reports on research findings, educational conferences, etc., of broad interest to the public	54	31.2	23	36.5	23	31.1	8	22.2
Conducting research that goes beyond assessment of potential grants	53	30.6	22	34.9	24	32.4	7	19.4
Maintaining facilities used for direct services	35	20.2	29	46.0	6	8.1	0	0.0
Operating direct service programs	13	7.5	6	9.5	4	5.4	3	8.3
Other	18	10.4	7	11.1	7	9.5	4	11.1

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*.

## Why Do Foundations Conduct Direct Charitable Activities?

In their mission statements and reports, foundations focus primarily on the purposes of their *grantmaking* programs, such as increasing educational opportunities for disadvantaged youth or bringing about positive change in their communities. Less is said about the purposes of their *non-grantmaking* charitable programs, which may extend across program areas to support the infrastructure of their grantees.<sup>3</sup>

Foundations conduct non-grantmaking charitable programs for a wide range of reasons, mostly related to promoting organizational and field-wide effectiveness. Chief among these is building capacity among grantees. Some 77 percent of the independent and family foundations that conduct DCAs cited this goal (Table 2).

After capacity building, four additional purposes were mentioned by more than half of those surveyed:

- Encouraging grantees to share their knowledge and expertise (69 percent)

- Promoting collaboration among grantmakers with related interests (59 percent)
- Advancing knowledge about the field or a specific area of practice (57 percent)
- Improving the effectiveness of the philanthropic field (55 percent)

Informing public policy or promoting dialogue on policy issues was cited by about 40 percent of the foundations.

Not surprisingly, the larger the foundation, the more likely it was to report multiple reasons for engaging in DCAs. At least two-thirds of the independent and family foundations with annual giving of \$10 million or more cited the top five purposes (all but “informing public policy or promoting dialogue on policy issues”) as reasons for their DCAs. Only the top two purposes, “building capacity among grantees” and “encouraging grantees to share their expertise and knowledge,” were cited by more than half of surveyed foundations with less than \$1 million in annual giving.

**TABLE 2. Purposes of Direct Charitable Activities for Independent Foundations, by Foundation Size**

Why does your foundation engage in direct charitable activities?

	Independent Foundations		Total Giving of \$10 million+		Total Giving of \$1 million–\$10 million		Total Giving Under \$1 million	
	No. = 173		No. = 63		No. = 74		No. = 36	
	No.	%	No.	%	No.	%	No.	%
To build capacity among grantees	133	76.9	50	79.4	58	78.4	25	69.4
To encourage grantees to share their expertise and knowledge	119	68.8	48	76.2	51	68.9	20	55.6
To promote collaboration among grantmakers with related interests	102	59.0	44	69.8	46	62.2	12	33.3
To advance knowledge about the field or practice area	98	56.6	43	68.3	41	55.4	14	38.9
To improve effectiveness of the philanthropic field	95	54.9	43	68.3	40	54.1	12	33.3
To inform public policy or promote dialogue on policy issues	69	39.9	36	57.1	21	28.4	12	33.3
Other	6	3.5	5	7.9	0	0.0	1	2.8

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, 2007.

► **El Pomar Foundation** supports charities in Colorado for public, educational, arts and humanities, health, and welfare purposes, including child welfare, the disadvantaged, and housing. Beyond grantmaking, the foundation directly conducts “community stewardship programs” in four broad mission areas: Nonprofit Effectiveness and Recognition, which includes operation of a conference center that serves nonprofits and governmental groups, an awards program, and office assistance; Leadership Development and Community Service, which includes a fellowship program for college graduates, a youth community service program, and a minority leadership program, among others; Community Outreach and Engagement, which supports an infrastructure for identifying important community issues, especially for underserved populations; and Historic Properties, which operates two properties open to the public.

Learn more at [www.elpomar.org](http://www.elpomar.org)

► **The Rockefeller Brothers Fund** promotes social change that contributes to a more just, sustainable and peaceful world. Its programs are intended to develop leaders, strengthen institutions, engage citizens, build community, and foster partnerships among government, business, and civil society. One of its best-known operating programs is the Pocantico Conference Center, which provides a place where nonprofit and public-sector institutions can convene to discuss critical issues related to the fund’s philanthropic program. In 2005, fifty-six conferences were hosted at the Center. The fund also maintains and operates the Pocantico Historic Area, which represents its single largest direct charitable activity; provides technical assistance to charities, governmental bodies, and committees; supports the service of staff on nonprofit organizations’ boards, public commissions, and task forces; and administers its Fellowships for Minority Students Entering the Teaching Professions program.

Learn more at [www.rbf.org](http://www.rbf.org)

## Have Direct Charitable Activity Levels Increased in Recent Years?

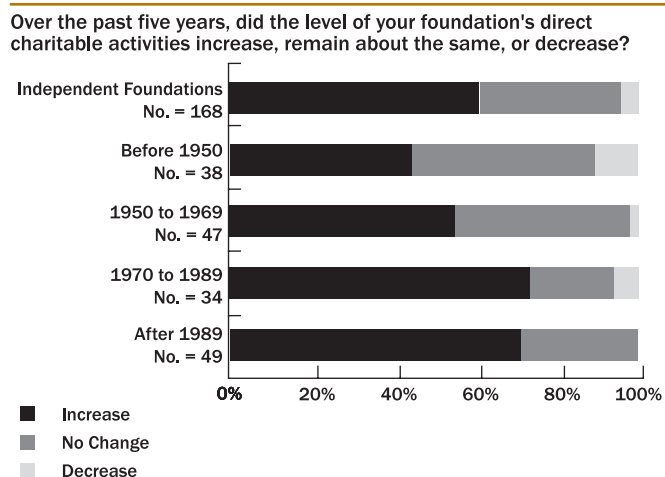
Foundations' DCAs have been increasing, according to survey respondents. About 60 percent of independent and family foundations said that their DCA levels have increased over the past five years (Figure 3). Another third (35 percent) stated that their levels have remained steady. In contrast, only 4 percent reported a decrease in DCAs. (Three percent did not answer the question.) These results varied little by foundation size.

Interestingly, younger foundations were among the most likely to report an increase in DCAs. Of independent foundations conducting direct charitable programs, more than 70 percent of those formed after 1989 (and a similar proportion of those formed between 1970 and 1989) reported increased activity, compared with just under half of the foundations created before 1969. One possible explanation for the difference is that younger foundations' resources are likely to be growing faster, enabling these organizations to develop a wider range of operational strategies. It also bears noting that many of the older endowed foundations experienced substantial losses in their assets in the early years of this decade. The fact that the vast majority of these funders reported either an increase in spending for direct charitable programs or no change suggests that these activities are a core part of the work of these established foundations. Providing technical assistance to grantees and directly conducting other types of activities may also be viewed as a way to leverage more limited grant dollars.

Whether or not their own level of direct charitable activity has risen in recent years, foundations strongly believe that this practice is becoming widespread. Three-quarters of the independent and family foundations that responded to this question said that more foundations are engaged in DCAs compared with five years ago.

Among the respondents who provided explanatory comments, the largest number pointed to increasing field-wide interest in building capacity among grantees and nonprofits and in helping grantmakers to become more effective. Specifically, respondents mentioned more collaborations and capacity-building activities among foundations in their area, an increase in the creation of nonprofit resource centers by foundations, and "better understanding of the need to improve performance and management and develop stronger executive talent in the nonprofit arena."

**FIGURE 3. Changes in Levels of Independent Foundations' Direct Charitable Activities, by Foundation Age (Period of Establishment)**



Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*. A total of 168 independent foundations responded to this question.

► **The Bill & Melinda Gates Foundation** works to reduce inequities and improve lives around the world. In developing countries, it focuses on improving health, reducing extreme poverty, and increasing access to technology in public libraries. In the U.S., the foundation seeks to ensure that all people have access to a great education and to technology in public libraries. In 2005, Gates' principal direct charitable activities focused on education and included providing consulting assistance to schools, sponsoring research on educational issues of interest to the field, and supporting evaluations to assist grantee organizations in assessing their progress on projects. In global health, the foundation convened a health summit, developed a health diagnostics forum, supported the development of collaboration for an AIDS vaccine discovery, and facilitated a national HIV prevention initiative. Gates also provided funds to 15 states to manage and administer public access hardware upgrades in libraries.

Learn more at [www.gatesfoundation.org](http://www.gatesfoundation.org)

► **The Skoll Foundation** seeks to advance systemic change by investing in, connecting, and celebrating social entrepreneurs. The foundation engages in direct charitable activities through the Skoll Fund, a supporting organization associated with Community Foundation Silicon Valley. It also hosts and manages Social Edge, a web-based community with the mission to inform social entrepreneurs about news and opportunities, to educate them with a set of information resources in the field, and to connect them to each other and the broader community with tools and services that support their work.

Learn more at [www.skollfoundation.org](http://www.skollfoundation.org)

## How Do Direct Charitable Activities Affect Foundations' Charitable Administrative Expenses?

Understanding the impact of DCA expenses on total charitable administrative expenses is essential to an informed analysis of spending patterns by foundations that conduct DCAs. Yet due to the limitations of Form 990-PF, mentioned earlier, it is difficult to get a complete and accurate picture of expenditures for DCAs and to determine their significance in overall charitable administrative costs. Although the survey did not ask foundations to specify the amount of their spending on DCAs, it did ask them to calculate such spending as a percentage of all charitable administrative expenses.<sup>4</sup>

Spending for DCAs ranges from a small fraction of surveyed foundations' overall charitable administrative expenses to a significant share. For about 60 percent of responding independent and family foundations that engage in DCAs, it represents less than 10 percent of total charitable administrative expenses. At the other end of the spectrum, DCA spending represents more than 25 percent of these expenses for about a quarter of the respondents (39 foundations) and 50 percent or more for 15 percent (23 foundations).

The smallest foundations in the sample tend to spend proportionately higher shares of their charitable administrative expenses for DCAs, suggesting that these operating programs may substitute for grantmaking. DCA-to-total charitable expense levels were also slightly higher for the very largest foundations; they were lower for mid-size foundations.

Who conducts foundations' direct charitable programs? Do they use staff, consultants, board members, or others? The answers to these questions have important implications for staff size, compensation levels, and expenditure levels for consultants and other contractors.

It is important to note that even though the survey targeted the top 3,000 foundations, about a quarter of the respondents overall do not have paid staff to carry out their charitable activities. In contrast, more than 95 percent of the foundations reporting DCAs employ paid staff. This finding suggests that having paid staff is a key requirement for operating DCA programs.

### What are "charitable administrative expenses"?

Charitable administrative expenses are all expenditures related to carrying out a foundation's charitable mission, including expenses for grants administration, direct charitable activities, and general overhead costs. All operating costs that can be counted as part of the qualifying distributions that comprise a foundation's annual payout requirement are included. Because investment-related expenses do not count toward qualifying distributions, they are not included in charitable administrative expenses.

While 37 percent of the independent and family foundations rely at least to some extent on consultants to conduct their non-grantmaking charitable activities, paid staff plays by far the principal role (Table 3). Just under 91 percent of DCA makers reported that staff members are responsible for running these activities. About 23 percent rely on their board members, at least in part, to carry out their DCAs.

Staffing patterns for DCAs vary by foundation size. The largest foundations surveyed are by far the most likely to employ consultants in addition to using paid staff. The use of consultants decreases with foundation size—from 59 percent for the largest independent and family foundations in the sample (those with total annual giving of \$10 million or more) to 11 percent for those in the smallest giving category (\$1 million or less). In contrast, the smallest foundations, which include all but one of the unstaffed respondents, were the most likely to engage their board members in operating these activities (42 percent vs. 13 percent at the largest foundations).

Staffing patterns also vary by foundation age. Like the smallest foundations, the youngest foundations are by far the most likely to involve foundation board members in conducting their direct charitable programs. Among responding independent and family foundations established after 1989, nearly 30 percent said they engage board members in conducting DCAs, while among those established prior to 1950, just 15 percent use board members in this role.

**TABLE 3. Persons Involved in Conducting Foundations' Direct Charitable Activities for Independent Foundations, by Foundation Size**

Who conducts your direct charitable activities?

	Independent Foundations		Total Giving of \$10 million+		Total Giving of \$1 million–\$10 million		Total Giving Under \$1 million	
	No. = 173		No. = 63		No. = 74		No. = 36	
	No.	%	No.	%	No.	%	No.	%
Foundation staff	157	90.8	61	96.8	70	94.6	26	72.2
Consultants	64	37.0	37	58.7	23	31.1	4	11.1
Foundation board members	39	22.5	8	12.7	16	21.6	15	41.7
Other	8	4.6	2	3.2	2	2.7	4	11.1

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, 2007.



## Direct Charitable Activities Conducted by Community Foundations

A vastly higher proportion of community foundations reported DCAs (61 percent) than of either independent foundations (25 percent) or corporate foundations (16 percent) (Figure 4). What might account for this difference?

By definition, a community foundation's mission as a public charity extends beyond grantmaking and may entail a range of activities, from convening groups on community issues to providing free space for nonprofits. As one respondent said, "Community foundations have the ability to create change through community leadership as well as by grants."

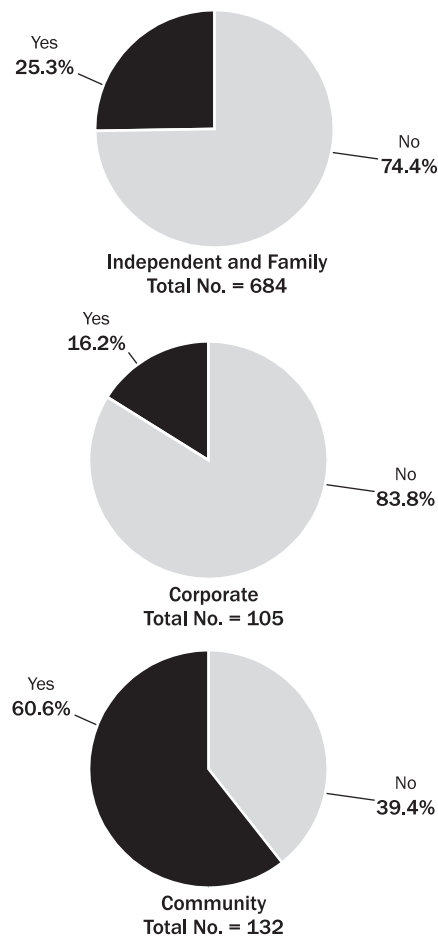
By contrast, independent and corporate foundations may view their roles more narrowly. Also, they may lack the staff needed to operate programs. Whereas all but a few community foundations have paid staff, private foundations may rely on board members or consultants to operate their charitable programs.

Some key findings regarding DCAs at community foundations:

- Compared to independent and family foundations, community foundations reported slightly higher levels of engagement in "providing technical assistance to grantees and other charitable organizations" (69 percent vs. 59 percent); across all other types of DCAs, there was little difference between levels of engagement reported by community foundations and independent foundations.
- Community foundations were also more likely than independent or family foundations to say that "improving the effectiveness of the philanthropic field" was a reason for their engaging in DCAs (73 percent vs. 55 percent) (Table 4), while independent and family foundations were significantly more likely to cite "encouraging grantees to share their expertise and knowledge" as a goal of their DCAs (69 percent vs. 46 percent).
- Community foundations were the most likely survey responders to report increases in DCAs over the past five years (75 percent).
- Community foundations reported lower levels of direct charitable expenses relative to all charitable administrative expenses. While a quarter of the independent foundations engaged in DCAs indicated that DCAs account for at least 25 percent of their overall charitable administrative expenses, just 6 percent of community foundations reported comparable proportions of DCA-related expenses.

**FIGURE 4. Foundation Engagement in Direct Charitable Activities, by Foundation Type**

Does your foundation currently engage in direct charitable activities?



Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, 2007.

**TABLE 4. Purposes of Direct Charitable Activities for Community Foundations, by Foundation Size**

Why does your foundation engage in direct charitable activities?

	Community Foundations		Total Giving of \$10 million+		Total Giving of \$1 million–\$10 million		Total Giving Under \$1 million	
	No. = 80		No. = 25		No. = 34		No. = 21	
	No.	%	No.	%	No.	%	No.	%
To build capacity among grantees	64	80.0	21	84.0	25	73.5	18	85.7
To improve effectiveness of the philanthropic field	58	72.5	19	76.0	25	73.5	14	66.7
To promote collaboration among grantmakers with related interests	54	67.5	21	84.0	20	58.8	13	61.9
To advance knowledge about the field or practice area	45	56.3	18	72.0	18	52.9	9	42.9
To encourage grantees to share their expertise and knowledge	37	46.3	11	44.0	15	44.1	11	52.4
To inform public policy or promote dialogue on policy issues	29	36.3	14	56.0	10	29.4	5	23.8
Other	3	3.8	0	0.0	2	5.9	1	4.8

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, 2007.

## Conclusions

Based on the findings from this survey, it appears very likely that the practice of foundations augmenting their grantmaking with direct charitable programs will continue to grow in the near future. Older independent foundations with established, formal operating programs have not decreased their activity levels over the past five years. In fact, spending on DCAs has increased for roughly half of these older (and often larger) foundations. At the same time, many younger foundations have only recently started non-grantmaking charitable programs. As their resources grow, these foundations can be expected to diversify the programs that they conduct directly and to increase spending on them.

These younger foundations represent the largest group included in the survey, and their number is expanding rapidly.<sup>5</sup> Younger foundations are already more likely to engage in DCAs, and the vast majority of them believe that the practice of directly conducting programs is increasing for the field overall. This perception may be associated with a trend among younger donors—regardless of the philanthropic vehicle they choose—to take a more hands-on approach to their philanthropic work. Creating a foundation-administered program represents one way to be more actively involved in achieving results.

New foundations are not alone in sensing an increase in the practice of DCAs. At least three-fourths of the responding independent foundations from all age and size groups said that more foundations are engaged in conducting charitable programs compared with five years ago. The two main reasons for this growth, according to respondents, are an increasing interest in capacity building for nonprofits and heightened focus among foundations on becoming more effective, in both their grantmaking and their non-grantmaking programs.

As DCAs become more common in the foundation field, these activities can be expected to have an increased impact on charitable administrative expense levels.<sup>6</sup> For some foundations, these expenses already represent a significant portion of overall charitable administrative expenses. Yet, Form 990-PF currently is not a reliable source of information on foundations' direct charitable programs. Moreover, current reporting fails to show the relationship between expenditures for these charitable programs and charitable administrative expenses overall.

In the interest of promoting greater transparency and to facilitate the monitoring of foundations' expenses, the Internal Revenue Form 990-PF should be revised to more accurately account for direct charitable activity expenses. To that end, in 2005 the Independent Sector's Panel on the Nonprofit Sector made recommendations to the Internal Revenue Service for changes in Form 990-PF, including separate reporting of expenditures related to DCAs and clear instructions and definitions to facilitate consistent reporting of grants, grant-related administrative costs, DCAs, and general overhead expenses.<sup>7</sup> The implementation of these suggested changes would go a long way toward improving understanding about foundations' DCAs and the link between grantmaking and non-grantmaking charitable activities.

## Endnotes

1. See Montgomery-Talley, La June and William C. Richardson. "How a Common Language and Consistent Financial Reporting Practices Could Enhance the Sector," *New Directions for Philanthropic Fundraising*, Volume 45, Fall 2005.
2. *Internal Revenue Service. Instructions for Form 990-PF (2006)*. Retrieved April 3, 2007, from Internal Revenue Service Web site: <http://www.irs.gov/instructions/i990pf/ch02.html#d0e4459>.
3. See Backer, Thomas E. et al. *Exploring Foundation Financial Investments in Nonprofit Capacity Building*. Encino, CA: Human Interaction Research Institute, 2006. Available from <http://www.humaninteract.org/images/finalrep129C-carnegie.pdf>. Internet, accessed 4/3/2007.
4. For private foundations, Form 990-PF, Pt. 1, line 24, column d; for community foundations, Form 990, Pt. 2, column b, line 44 minus lines 22 and 23.
5. According to the 2007 edition of the Foundation Center's report, *Foundation Growth and Giving Estimates*, the foundation community grew by 5 percent in 2005, adding 3,359 foundations. This was the highest growth rate reported in the last four years and appears to signal a return to the healthy growth rates of the late 1990s. Among the more than 20,000 larger foundations for which the Foundation Center has establishment information, foundations formed since 1990 now represent fully half.
6. As reported in *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (2006; Urban Institute, Foundation Center, GuideStar), staffed independent foundations, that engaged in direct charitable activities had higher median charitable administrative expense-to-qualifying distribution ratios than those that did not (pg. 18). Community foundations that operated their own charitable programs also reported higher median expense ratios compared to those that did not (pg. 26). (Qualifying distributions includes grants, charitable administrative expenses and other disbursements that count toward the payout requirement for private foundations.)
7. These recommendations were included in the Panel's Final Report to Congress and the Nonprofit Sector, "Strengthening Transparency, Governance, and Accountability of Charitable Organizations" (June 2005). Recommendations were based on the work of the 990-PF Task Force. The Task Force, in turn, studied the recommendations of the Foundation Financial Officers Group (FFOG), which represents mainly large foundations. FFOG worked intensively with its members and a consultant over a few years to develop proposals for revising Form 990-PF, including specific recommendations aimed at improving the reporting of direct charitable activities and the public's understanding of how these activities relate to foundations' overall charitable work. The Task Force met again in 2006 to take the recommendations a step further and to focus on additional changes to the 990-PF.

► **The Seattle Foundation** seeks to improve the quality of life in its community through grants in the areas of basic needs, health and wellness, education, the economy, arts and culture, neighborhoods and communities, and the environment. The foundation engages in direct charitable activities related mainly to its role as a community leader and convener. For example, the foundation seeks to foster collaborations with other philanthropic organizations in support of activities that lead to healthy outcomes for local residents and offers its expertise to strengthen these collaborations; and hosts convenings of nonprofit staff, community leaders, donors, and other experts to discuss important issues and build a stronger community network. The foundation also continually gathers and shares information about local needs, leading to the creation of its seven-element Healthy Community framework.

Learn more at [www.seattlefoundation.org](http://www.seattlefoundation.org)

► **The Marin Community Foundation (MCF)** works to help improve the human condition, embrace diversity, promote a humane and democratic society, and enhance the quality of life in its community. In addition to its grantmaking activities, the foundation regularly convenes diverse groups, including government agencies, schools, nonprofits, and other foundations, to work on common community issues, such as homelessness. MCF also provides technical assistance to nonprofits, e.g., to improve their fundraising capacity; educates the general public on current social issues; provides meeting space for local nonprofits; and promotes and facilitates widespread community support in response to emergency needs. Finally, MCF operates the Philanthropy Resource Center, which helps people and businesses plan and execute their philanthropic activities.

Learn more at [www.marincf.org](http://www.marincf.org)

## Methodology and Sample Characteristics

Assessing the extent to which private foundations are conducting DCAs is hampered by the limitations of Form 990-PF and by confusion and inconsistency in foundation reporting.<sup>1</sup> Measuring community foundation involvement is even more challenging, since public charities do not report these particular non-grantmaking activities separately on Form 990. To learn more about the extent and nature of foundations' engagement in DCAs, the Foundation Center included a set of questions on this topic in its 2007 annual "Foundation Giving Forecasting Survey." The confidential survey, which targeted roughly 3,000 of the largest private and community foundations nationwide, was conducted from January through March 2007. The sampling frame included the top 800 independent foundations in the country (by total giving), the top 400 corporate foundations, the top 150 community foundations, and the top 25-50 foundations in each state.

A total of 921 foundations (32 percent) provided usable responses. Of those, 270 indicated that they conduct DCAs.

**Types of Foundations**—Nearly 75 percent of the 921 survey respondents are independent and family foundations (N=684). Community foundations represent 14 percent of respondents (N=132), and corporate foundations comprise 11 percent (N=105).

**Foundation Size**—Although the sample includes most of the nation's largest foundations, survey respondents fall into a wide range of giving groups (Table 5). Of the 921 respondents, the largest share (43 percent; N=391) gave between \$1 million and \$10 million in the latest year reported (2005 for most), while the second largest share (38 percent; N=350) gave under \$1 million in grants. Roughly 20 percent of respondents gave \$10 million or more (N=180), and 87 of those funders gave more than \$25 million. By asset size, the majority of survey respondents (61 percent) had assets of less than \$50 million. Among the 270 reporting DCAs, however, nearly 58 percent (N=156) had assets greater than \$50 million, and 26 of those foundations had assets of \$1 billion or more.

**Staffed vs. Unstaffed Foundations**—Although the survey targeted larger foundations, nearly a quarter of the foundations surveyed do not have paid staff (Table 6). Compared with the survey sample overall, the 270 foundations that reported DCAs were far more likely to employ staff (all but ten reported having paid staff).

**Foundation Age**—A breakdown of the overall survey sample by age shows that the largest share of respondents (30 percent) are foundations formed after 1989 (Table 7), followed by those formed between 1970 and 1989. The oldest foundations represent the smallest grouping (17 percent). Age patterns are similar for the foundations reporting DCAs.

**Foundation Location**—Roughly one-fourth of the 921 respondents are based in each of the four major regions: South (27 percent), Midwest (27 percent), Northeast (26 percent), and West (21 percent). Among the 270 respondents that reported DCAs, the distribution is similar, although slightly more respondents with DCAs are from the South and West and slightly fewer from the Northeast and Midwest.

**TABLE 5. Survey Respondents by Range of Overall Giving**

	All Funders		Funders Reporting Direct Charitable Activities	
	No. = 921		No. = 270	
Giving Range <sup>1</sup>	No.	%	No.	%
\$10 million+	180	19.5	94	34.8
\$1 million–\$10 million	391	42.5	116	43.0
Under \$1 million	350	38.0	60	22.2
<b>Total</b>	<b>921</b>	<b>100.0</b>	<b>270</b>	<b>100.0</b>

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*.

<sup>1</sup>Giving figures based on latest fiscal year reported (2005 for most foundations).

**TABLE 6. Survey Respondents: Staffed vs. Unstaffed**

	All Funders		Funders Reporting Direct Charitable Activities	
	No. = 921		No. = 270	
	No.	%	No.	%
Staffed	703	76.3	260	96.3
Unstaffed	218	23.7	10	3.7
<b>Total</b>	<b>921</b>	<b>100.0</b>	<b>270</b>	<b>100.0</b>

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*.

**TABLE 7. Survey Respondents by Period of Establishment**

	All Fundes		Funders Reporting Direct Charitable Activities	
	No. = 913		No. = 268	
Establishment Period <sup>1</sup>	No.	%	No.	%
Before 1950	153	16.6	52	19.4
1950 to 1969	234	25.4	59	22.0
1970 to 1989	258	28.0	74	27.6
Since 1990	268	30.0	83	31.0
<b>Total</b>	<b>913</b>	<b>100.0</b>	<b>268</b>	<b>100.0</b>

Source: The Foundation Center, *More Than Grantmaking: A First Look at Foundations' Direct Charitable Activities, 2007*.

<sup>1</sup>Establishment data was not available for eight foundations (two of these foundations reported DCAs). The number above each bar indicates the number of foundations formed in that period and still active in 2002–2005.

1. Private foundations are asked to list their four largest direct charitable programs on Form 990, Pt. IX.A. The form does not record a sum total of direct charitable activity expense, nor does it provide a way to separate expense items for charitable operating programs, e.g., professional fees, from overall charitable expense items. In addition to the form's limitations, the use of Pt. IX.A is poorly understood by foundations. According to the 2006 *Foundation Expenses and Compensation* study cited earlier, many foundations mistakenly use Pt. IX.A to describe their grant programs. On the other side, many foundations that reported direct charitable activities in the Foundation Center's 2007 survey on DCA did not report this activity in Pt. IX.A, or reported it inconsistently, which suggests that the definition is not clear.



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