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Benchmarking Foundation Administrative Expenses: How Operating Characteristics Affect Spending



Benchmarking Foundation Administrative Expenses: How Operating Characteristics Affect Spending

By Loren Renz, Research Consultant

CONTRIBUTING STAFF

Marc Almanzor _____ Research Associate
Kathye Geisler _____ Publishing Database Administrator
Christine Innamorato _____ Production Manager
David Jacobs _____ Director, Foundation Information Management
Steven Lawrence _____ Director of Research
Lawrence T. McGill _____ Vice President for Research
Reina Mukai _____ Senior Research Associate
Betty Saronson _____ Graphic Designer/Production Coordinator
Grace Sato _____ Research Assistant
Vanessa Schnaidt _____ Director of Communications

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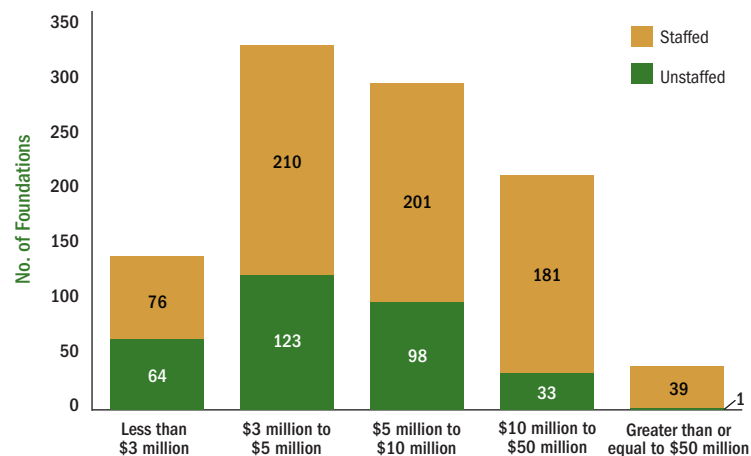
Key Findings

Policy discussions of foundations often focus on how much they spend on administrative activities relative to their grantmaking and programmatic activities. Foundations themselves seek guidance on this question from their peers and professional associations. Yet often missing in these discussions is the need to consider foundation differences—such as size, operating characteristics, and programmatic activities—when assessing foundations’ administrative and operating expenses. These differences are profound even among the nation’s largest independent foundations.

Benchmarking Foundation Administrative Expenses: How Operating Characteristics Affect Spending explores how variations in foundations’ characteristics, activities, and giving levels influence charitable (program-related) administrative expense levels for a sample of more than 1,000 of the 1,500 largest independent foundations between 2004 and 2006 (see “Sampling Information”).

This study builds on the groundwork laid by a broader study of 2001–2003 foundation expenses,¹ but focuses specifically on large independent foundations. Since these foundations account for the bulk of foundation resources and spending, they are of paramount interest to policymakers, watchdog organizations, and to leaders within the foundation world concerned with self-regulation and developing standards.

FIGURE A: Staffed versus Unstaffed Independent Foundations by Giving Range



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

This study’s goals are to inform policy debates and foundation practices by documenting program-related administrative expenses and assessing the factors that drive these expenditures. By extending the research horizon closer to the present, this study furthers understanding of what drives expenses. It confirms that patterns of expenses for large independent foundations that were clear and consistent in 2001–2003 remained consistent in 2004–2006, despite changes in the economic environment. Such consistency should give foundation managers, policymakers, and the public the confidence to consider a foundation’s operating characteristics when assessing their expenditures.

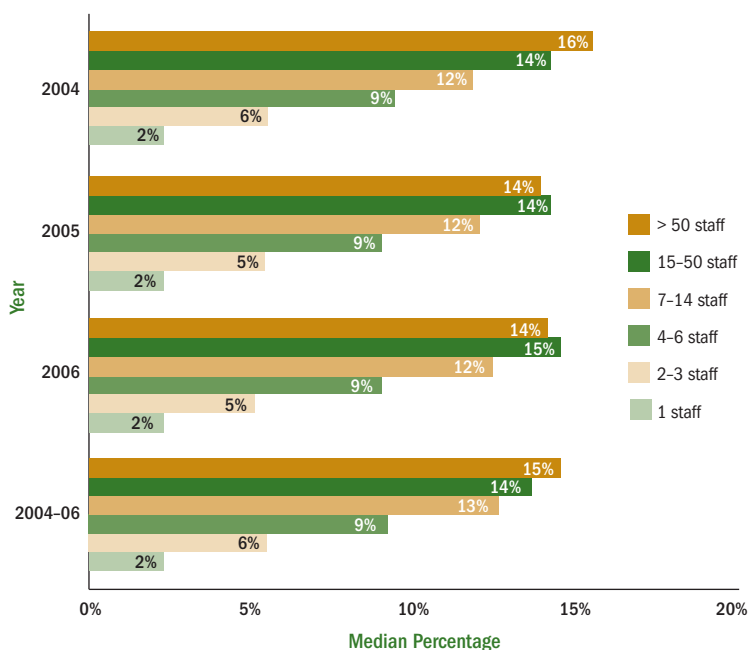
KEY FINDINGS

Operating Characteristics and Expense Patterns

Independent foundations’ characteristics strongly influence their charitable administrative expenses.

Even among the largest foundations, differences in giving levels, assets, work styles, geographic reach, and programs vary dramatically and produce very different expense patterns. While some foundations in this study reported expenses in the millions in 2004–2006, one out of ten of these large grantmakers reported no expenses as part of their qualifying distributions in that period. Nearly one out of three had no paid staff (Figure A). Apparently, these foundations were functioning with volunteer labor while other operating costs were absorbed by the donor or the donor’s company.

FIGURE B: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004, 2005, and 2006: Staff Size (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

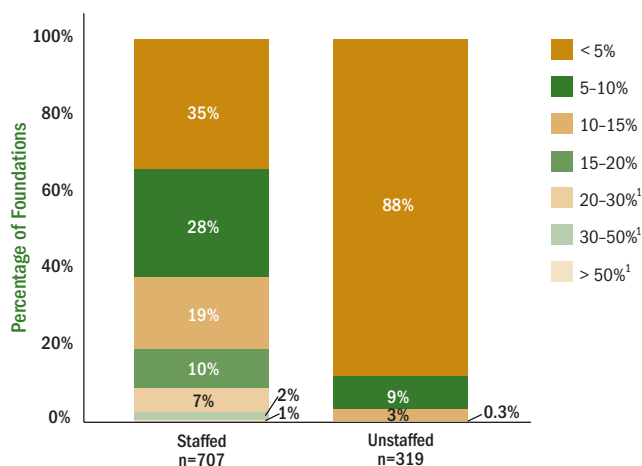
Employment of staff is the single most important factor affecting expense levels, followed by staff size.

Paying staff significantly raises administrative costs, and expense levels rise consistently with the number of staff (Figure B). Staff size, which varies greatly even among foundations with similar giving levels, depends on a foundation's mission, roles, and scope of activities. In general, the foundations that tend to give the most have the largest staffs. But smaller foundations with complex programs often have above-average staff size relative to their giving.

Foundations that employed staff had median expense ratios of nearly 8 percent, on average, compared with less than 1 percent for those without staff.

Just 35 percent of staffed foundations had a ratio below 5 percent, while 88 percent of unstaffed foundations were in this range (Figure C). At the other end of the spectrum, relatively few large independent foundations had ratios greater than 30 percent.

FIGURE C: Distribution of Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004-2006: Staffed and Unstaffed Independent Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

¹No unstaffed foundations have an average charitable administrative expenses-to-qualifying distribution ratio greater than 20 percent.

International grantmaking, direct charitable activities, and grants-to-individuals programs are strongly associated with higher expense ratios.

Foundations that engaged regularly in these practices between 2004 and 2006 had median expense-to-qualifying distribution ratios that were roughly twice as high as those that did not. Other practices that substantially boosted a foundation's administrative expense levels were making program-related investments and maintaining a web site (a proxy for a broader communications effort).

Foundations with high charitable administrative expense ratios often mix grantmaking and direct charitable activities.

While making grants is the primary function of most foundations, more than one out of eight of the large independent foundations studied engaged regularly

in direct charitable activities (Figure D), ranging from conducting health policy research to providing technical assistance to nonprofits to operating conference centers or museums.

Operating as a “health conversion” or “new health” foundation tends to raise administrative expense levels, especially for smaller foundations.

This study considered for the first time whether being formed from the sale of a hospital or health organization has an effect on foundation expenses. Higher than average staffing levels and the prevalence of direct charitable activities are among the factors that contribute to the higher expense levels associated with health conversion status.

Foundation size influences cost ratios.

Foundations with more resources tend to employ more staff, have more complex infrastructure, and engage in more complex activities. At the same time, the largest foundations also enjoy some economies of scale, so they can achieve lower cost ratios for certain activities.

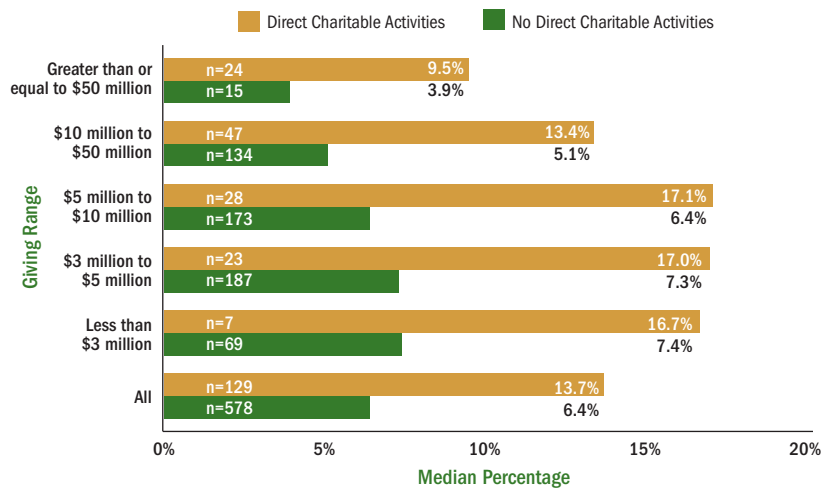
Donor-family involvement and operating as a “pass-through” foundation usually lower charitable administrative expense ratios in staffed foundations.

Family members may help hold down staff-related costs by providing program administration and other help (Figure E). Pass-through foundations, which have no permanent corpus, tend to employ fewer staff than endowed foundations of comparable giving size. Most pass-through foundations also demonstrate family involvement.

Changes in the economy, particularly the stock market, affect assets and giving levels of independent foundations and thus the relationship of their charitable administrative expenses to qualifying distributions.

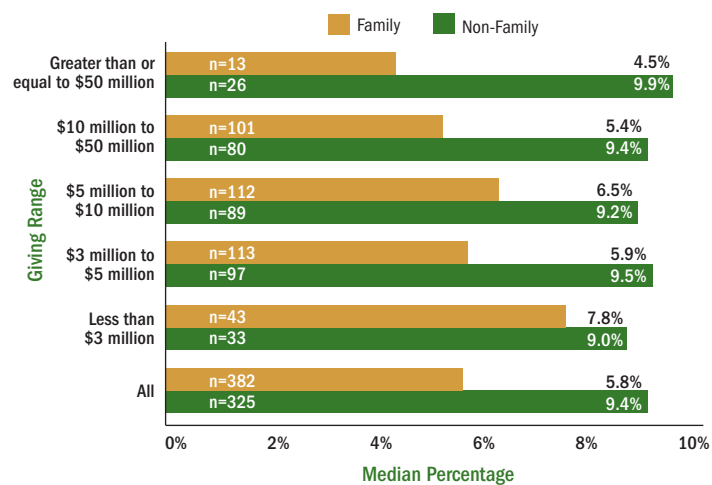
Independent foundations are very sensitive to market trends since their mandated payout levels are based on their net assets. Robust stock market growth in

FIGURE D: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Direct Charitable Activities (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

FIGURE E: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Family versus Non-Family (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

Sampling Information

This study focuses only on large independent foundations. The sample includes 1,026 foundations that ranked consistently among the approximately top 1,500 independent and family foundations by giving in 2004, 2005, and 2006 and for which IRS Form 990-PF was available publicly for all years. These foundations each gave at least \$2.2 million in each study year. While foundations in the study represented less than 2 percent of all independent foundations in 2004, they accounted for 64 percent of all independent foundation giving in that year and 70 percent of all independent foundation assets.

2005 and 2006 helped to boost depleted foundation endowments and contributed to very solid growth of giving (Figure F). Charitable administrative expenses grew more slowly in this period, perhaps reflecting an adjustment to steep drops in foundation portfolios in 2001–2002. When giving increases faster than expenses, the program-related expense portion of qualifying distributions decreases. Between 2004 and 2006, the median expense ratio for staffed foundations decreased slightly.

Components of Charitable Administrative Expenses

Compensation was by far the biggest component of expenses.

Compensation accounted for half of all charitable administrative expense dollars of the largest independent foundations between 2004 and 2006 (Figure G). In addition to employee salaries and remuneration of officers and board members, “charitable” compensation includes pension plans and other benefits.

What Are Charitable Administrative Expenses and How Are They Measured?

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 private foundation’s annual payout requirement are included. (Investment-related expenses are not included.)

This study measures the relationship between charitable administrative expenses and qualifying distributions for foundations with or without certain operating characteristics to show how different ways that foundations conduct their work raise or lower expenses. It examines the median ratio (middle value) of expenses to qualifying distributions for each characteristic, using a three-year average (2004–2006).

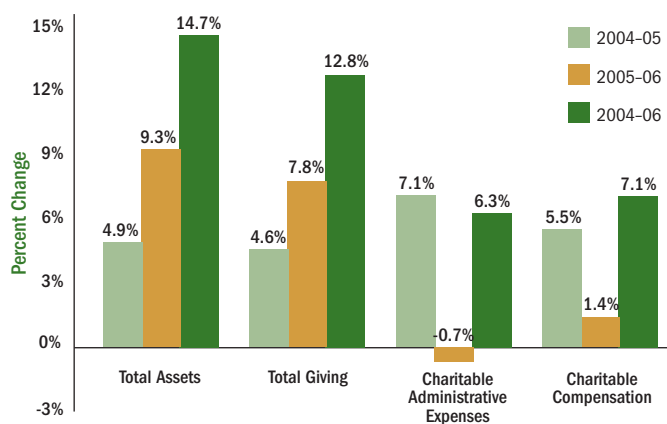
The other main expense categories were “other expenses” and “other professional fees.”

Between 2004 and 2006, 18 percent of large independent foundations’ expenditures went to “other expenses” while 14 percent went to “other professional fees.” In general, “other professional fees” refers to consulting services associated with grants administration, accounting, evaluation, etc., while “other expenses” is a residual category for expenses that do not fit into one of the major line items on Form 990-PF. However, foundations do not use these categories consistently.

Endnote

1. Elizabeth T. Boris, Loren Renz, et al., *What Drives Foundation Expenses and Compensation? Results of a Three-Year Study* (Washington, D.C.: The Urban Institute, the Foundation Center, and Philanthropic Research, Inc., 2006). This study examined 2001–2003 spending and compensation patterns for the largest 10,000 independent, corporate, and community foundations, ranked by amount of grants paid in 2001. The study was the final report of the Foundation Expenses and Compensation Project, a collaboration of the Foundation Center, the Urban Institute’s Center on Nonprofits and Philanthropy, and GuideStar.

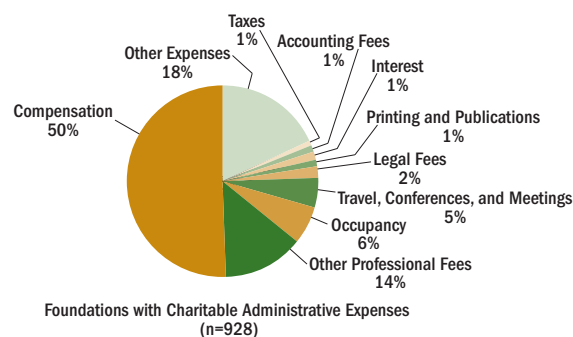
FIGURE F: Change in Aggregate Finances for the Largest Independent Foundations, 2004, 2005, and 2006



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. The data are not adjusted for inflation.

¹Charitable administrative expenses and compensation are costs related to the foundation’s charitable mission and exclude investment-related expenses.

FIGURE G: Components of Charitable Administrative Expenses for the Largest Independent Foundations, 2004–2006



Source: The Foundation Center, 2011. Includes 928 foundations out of 1,026 of the largest independent foundations sampled that reported charitable administrative expenses. These are costs related to the foundation’s charitable mission and exclude investment-related expenses. The data are based on a three-year average for 2004 through 2006. Ninety-eight foundations did not have any charitable administrative expenses.

Introduction

What drives foundation administrative expenses and what are appropriate levels of expenses for the nation's largest independent foundations? Those are the questions that tend to attract the most attention from the press, regulators, and the public, perhaps due to the greater visibility of their programs and the sheer magnitude of their operations and spending. These are a highly diverse group of institutions, from long-established professionalized foundations with large endowments to young family-run foundations that operate without an endowment to “new health” foundations. Do differences in size, operating activities, and the way they accomplish their work have a predictable effect on program-related spending levels, and which characteristics have the strongest effect? And what happens to expense levels of these larger foundations as the economic climate changes?

This report explores how variations in foundations' operating characteristics and programs influenced charitable administrative expense levels for a sample of more than 1,000 of the largest independent foundations between 2004 and 2006, a period when foundations were rebounding from the 2001 to 2002 recession.

This study builds on the extensive groundwork laid by the Foundation Expenses and Compensation Project, a collaboration of the Foundation Center, the Urban Institute's Center on Nonprofits and Philanthropy, and GuideStar. The multi-year project examined the spending practices of the 10,000 largest U.S. foundations starting with a first look at 2001¹ and ending with an expanded study of 2001 to 2003.² By averaging three years of data, the project yielded the most robust analysis ever of

foundation finances and provided key benchmarks for independent, corporate, and community foundations.

Benchmarking Foundation Administrative Expenses: How Operating Characteristics Affect Spending extends the research time frame to 2004 to 2006 for an important subset of foundations and exclusively for foundation expense patterns. While ongoing study of the top 10,000 U.S. foundations, including compensation, would have been ideal, such a scale was not sustainable. The data collection and analysis costs for so many institutions are prohibitive. Instead, since 2007, the Foundation Center has focused on collecting expanded financial data from IRS Form 990-PF for the largest independent foundations (see “Foundation Finances Database,” p. i). The focus on large independent foundations is strategic. Since these foundations account for the bulk of foundation resources and spending, they are of paramount interest to government regulators and watchdog groups and to leaders within the foundation world concerned with self-regulation and developing standards.

Like the earlier project, this study's goals are to inform policy debates and foundation practices around the balance between expenditures for grants and other charitable activities and expenditures for administering these programs and managing the foundation. By extending the research time frame by three years, this study deepens understanding of what drives expenses. It confirms that the patterns of expenses for large independent foundations that were clear and consistent in 2001 to 2003 remained consistent in 2004 to 2006, despite changes in the economic environment. By validating the study methodology over

Do differences in size, operating activities, and the way foundations accomplish their work have a predictable effect on program-related spending levels?

Foundation Finances Database

To update research on foundation spending patterns and to undertake new research on foundation payout practices, the Foundation Center created the Foundation Finances Database. This statistical data source brings together in one place extensive financial data reported by private foundations on Form 990-PF, filed annually with the Internal Revenue Service, and supplemental fiscal, programmatic, and operating characteristics data reported to the Foundation Center in its annual surveys. The Finances database has information on the approximately 1,500 largest independent foundations each year (by grants paid amount), starting with fiscal year 2004. New fiscal data from Form 990-PF is added as it becomes available. For more information, see the Methodology appendix.

an extended time period, it provides the impetus for updating the results on an ongoing basis and advancing the findings closer to the present. To that end, the Foundation Center will prepare a study of the 2007 to 2009 spending patterns of large independent foundations over the next year.

STRUCTURE OF THIS REPORT

Chapter 1 provides an overview of the finances of the 1,026 large independent foundations that are the subject of this study and previews how their 2004 to 2006 financial trends related to spending patterns. Examined are changes in the levels of their assets, giving, charitable administrative expenses, and compensation. This chapter also addresses the economic environment in which foundations were operating during the study years.

Chapter 2 defines charitable administrative expenses and breaks down the 2004 to 2006 total expense dollars of studied foundations into

key expense items. Having a clear understanding of foundations' charitable administrative expenses is essential to understanding how spending costs are measured in the main body of this report.

Chapter 3 examines in depth how independent foundations' diverse operating characteristics and practices—especially employing staff, staff size, levels of giving, engagement in direct charitable activities, donor-family involvement, and whether a foundation finances its grants out of its endowment—influence the charitable administrative expense portion of their qualifying distributions.

Chapter 4 summarizes conclusions and offers recommendations to improve understanding of foundations' charitable expenditure practices.

The appendices document the study methodology, provide definitions of the financial and operating characteristic variables used in the analysis, and offer benchmarking tables that provide comparative information on the charitable administrative expenses of the largest independent foundations.

Endnotes

1. See Elizabeth T. Boris, Loren Renz, et al., *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (Washington, D.C.: The Urban Institute, Foundation Center, and Philanthropic Research, Inc., 2006). This study examined 2001 patterns for the largest 10,000 foundations by amount of grants paid in 2001. The study dataset included 8,876 independent foundations, 807 corporate foundations, and 317 community foundations.
2. See Elizabeth T. Boris, Loren Renz, et al., *What Drives Foundation Expenses and Compensation? Results of a Three-Year Study* (Washington, D.C.: The Urban Institute, Foundation Center, and Philanthropic Research, Inc., 2008). This expanded study examined 2001–2003 spending patterns for the same 10,000 foundations that were in the original (2001) study. Of the 8,876 independent foundations studied, three-fourths gave, on average, less than \$1 million between 2001 and 2003. By contrast, the new study examines 1,026 independent foundations that gave at least \$2.2 million in 2004, 2005, and 2006.

1

Overview of Independent Foundations

Independent foundations, which include family foundations, account for the vast majority of U.S. grantmaking foundations and their resources.¹ They are also among the most highly scrutinized charities (see “What Are Independent Foundations?,” p.1). Independent foundations differ in auspices and in governance and operating structures from corporate (company-sponsored) and community foundations, which are the other main U.S. grantmaking foundation types. But independent foundations themselves exhibit great diversity in resources, staffing, work styles, geographic scope of giving, and types of programs. These differences have pronounced effects on foundations’ expense patterns.

FOUNDATIONS IN THIS STUDY

This study focuses only on large independent foundations. The study sample includes 1,026 foundations that ranked consistently among the approximately top 1,500 independent

and family foundations by giving in 2004, 2005, and 2006 and for which IRS Form 990-PF was available publicly for all years. These foundations each gave at least \$2.2 million in each study year.

Every effort was made to compile a complete set of the top 1,000 independent foundations by giving in each year and to include them in the three-year panel. However, some of the largest foundations did not consistently meet the \$2.2 million threshold, while others did not have Form 990-PF publicly available for one or more of the study years. Despite these limitations, the study sample includes a high percentage of the very largest foundations: approximately 95 percent of the top 100 independent foundations in 2004, 2005, and 2006 and 75 percent of the top 1,000 foundations are included.

As Table 1.1 shows, between 2004 and 2006, the 1,026 independent foundations in the study had, on average, nearly \$298 billion in combined assets and nearly \$15 billion in total giving.

While the direction of giving and assets tends to track the economy, changes in foundation administrative expense patterns generally follow a longer time horizon.

What Are Independent Foundations?

Independent foundations, which include family foundations, typically derive their funds from a single source, usually an individual or family. The activities of these private foundations are governed by the U.S. tax code and its regulations. Two regulations are particularly relevant to this study of foundation expenses: (1) private non-operating foundations are required to distribute for charitable purposes a minimum of 5 percent of the average monthly value of that year’s assets (i.e., the payout requirement) by the

end of the following year; and (2) they must file with the IRS the annual tax Form 990-PF, which includes information on finances, grants awarded, direct charitable activities, and other charitable expense that qualify toward the payout requirement.

Independent foundations’ charitable activities may be managed by paid staff, consultants, paid or unpaid board members, institutional trustees, or some mix of these groups. Some independent foundations finance their grants and expenses from endowment

earnings; others “pass through” funds—that is, they maintain a small or no endowment and cover grants and expenses with periodic gifts.

Independent foundations may operate programs locally, nationally, or internationally. Although the principal activity of independent foundations is grantmaking, they may accomplish their mission through a range of activities, including foundation-administered programs and program-related investments.

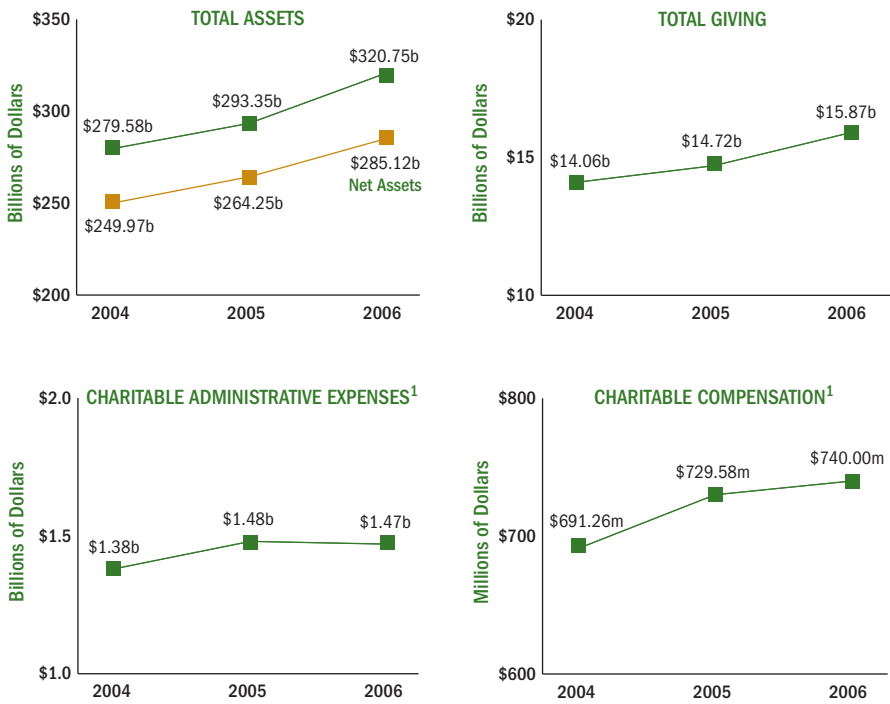
TABLE 1.1: Financial Measures for the Largest Independent Foundations, 2004–2006

Financial Measure (average for 2004–06)	
Total Assets (market value)	\$297.9 billion
Total Giving	\$14.9 billion
Qualifying distributions	\$16.7 billion
Charitable administrative expenses ¹	\$1.4 billion
Compensation ¹	\$720.3 million
Number of foundations reporting:	
Total giving	1,026
Qualifying distributions	1,026
Charitable administrative expenses	928
Compensation	722

Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. The data are based on a three-year average for 2004 through 2006.

¹Charitable administrative expenses and compensation are costs related to the foundation’s charitable mission and exclude investment-related expenses.

FIGURE 1.1: Aggregate Finances for the Largest Independent Foundations, 2004, 2005, and 2006



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). See Table 1.2 for data used in this figure. Sample includes 1,026 of the approximately top 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. The data are not adjusted for inflation.

¹Charitable administrative expenses and compensation are costs related to the foundation’s charitable mission and exclude investment-related expenses.

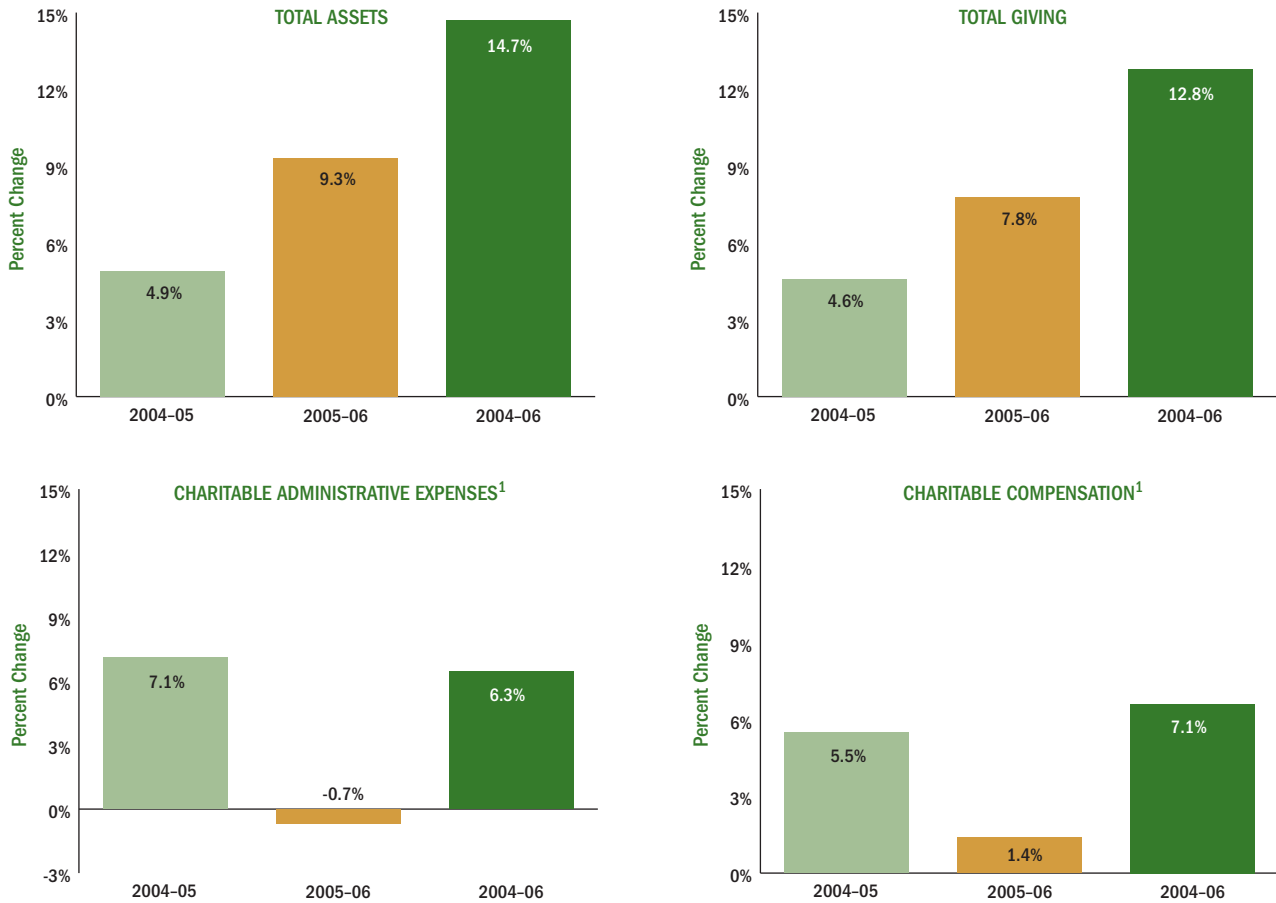
While the sample of 1,026 foundations represented less than 2 percent of all independent foundations in 2004, they accounted for 64 percent of all independent foundation giving in that year and 70 percent of all independent foundation assets.² Independent foundations in the study also reported, on average, \$1.4 billion in charitable administrative expenses between 2004 and 2006 and \$16.7 billion in qualifying distributions.

All of these large foundations reported giving and qualifying distributions and most reported some type of charitable administrative expenses. Still, it bears noting that of the 1,026 large foundations studied, 98 (10 percent) reported no charitable administrative expenses at all and 304 (30 percent) reported no compensation. A fair number of these large foundations may rely on volunteer personnel to get their work done or hire consultants (see Chapter 2, and also “Staffing Profile of the Largest Independent Foundations,” p. 10). For a smaller number of foundations that reported no program-related administrative costs, it appears that the donor or the donor’s company absorbed other types of expense items, such as rent, utilities, and legal and accounting fees.

FINANCIAL TRENDS, 2004 TO 2006

This study uses three-year averages to even out the anomalies of any one year and to depict the patterns more clearly. Yet behind these averages are some interesting annual variations and trends over time (Table 1.2). Foundation assets generally track the U.S. economy. After falling precipitously in 2001 and 2002, the asset values of independent foundations overall grew along with stock values for four consecutive years (2003 to 2006).³ Year-end asset values of foundations in the study increased 15 percent from 2004 to 2006, including a 9 percent rise from 2005 to 2006 (Figures 1.1 and 1.2). Over the same

FIGURE 1.2: Change in Aggregate Finances for the Largest Independent Foundations, 2004, 2005, and 2006



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). See Table 1.2 for data used in this figure. Sample includes 1,026 of the approximately top 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. The data are not adjusted for inflation.

¹Charitable administrative expenses and compensation are costs related to the foundation's charitable mission and exclude investment-related expenses.

TABLE 1.2: Aggregate Finances for the Largest Independent Foundations, 2004, 2005, and 2006

Financial Measure	2004	2005	2006	Average 2004-06 ¹
Total Assets	\$279.6 billion	\$293.4 billion	\$320.7 billion	\$297.9 billion
Total Giving	\$14.1 billion	\$14.7 billion	\$15.9 billion	\$14.9 billion
Total Charitable Administrative Expenses ²	\$1.4 billion	\$1.5 billion	\$1.5 billion	\$1.4 billion
Total Compensation ²	\$691.3 million	\$729.6 million	\$740.0 million	\$720.3 million
Total Qualifying Distributions	\$15.5 billion	\$16.6 billion	\$18.0 billion	\$16.7 billion
Median Charitable Administrative Expenses	\$258,755	\$282,892	\$299,054	\$286,463
Median Qualifying Distributions	\$5,233,903	\$5,741,508	\$6,183,672	\$5,844,304

Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

¹Data are based on a three-year average for 2004 through 2006.

²Charitable administrative expenses and compensation are costs related to the foundation's charitable mission and exclude investment-related expenses.

period, net assets,⁴ used to determine independent foundations' minimum payout, grew at nearly the same pace.

Since most foundations base their giving levels on the net value of their assets in the preceding year (or over a few years), giving trends tend to lag behind asset trends by at least one year. After falling in 2002 and 2003, independent foundation giving began to rise in 2004 and continued to rise throughout the study years. Giving by sampled foundations increased nearly 13 percent between 2004 and 2006, with the largest boost (8 percent) occurring in the final year.

While the direction of giving and assets tends to track the economy, changes in foundation administrative expense patterns generally follow a longer time horizon. Institutional infrastructure—especially staff size and program commitments—cannot be easily changed as assets fluctuate from year to year.

Between 2004 and 2006, the charitable administrative expenses of foundations in the study increased 6 percent, or at less than half the pace of assets and giving. This change includes a 7 percent rise from 2004 to 2005 followed by a slight decrease from 2005 to 2006. The slower growth of foundation expenses over this period may reflect an adjustment to steep drops in foundation portfolios earlier in the decade.

Not surprisingly, program-related compensation, which is the largest component of charitable administrative expenses (see Chapter 2), followed nearly the same pattern as spending overall. After rising between 2004 and 2005, compensation leveled off between 2005 and 2006. Over the study period, compensation grew 7 percent.

In summary, 2004 to 2006 represented a stable period for the United States economy following a steep downturn early in the decade. Robust stock market growth in 2005 and 2006 helped to boost depleted independent foundation endowments and contributed to very solid growth in giving. The growth of assets and giving of sampled independent foundations during this period outpaced the growth of program-related spending.

Historically, 2004 to 2006 may be considered a return to more typical financial trends, while 2001 to 2003 was an anomalous period. But what bearing does an improvement in financial trends have on the relationship of expenses to qualifying distributions over time? And how do annual variations in expense patterns compare in times of economic growth and economic downturns? These issues will be touched on in Chapter 3.

Endnotes

1. According to the *Foundation Yearbook*, independent foundations represented 89 percent of the nearly 68,000 private and community foundations active in 2004. They accounted for 83 percent of total assets and 73 percent of total giving. For more information on foundation statistics, see foundationcenter.org/findfunders/statistics/.
2. According to the *Foundation Yearbook*, there were 60,034 independent foundations active in 2004. Together they held \$425.1 billion in assets and gave \$23.3 billion in grants.
3. For information on this period, see the Foundation Center's *Foundation Growth and Giving Estimates* reports for 2004, 2005, and 2006 at foundationcenter.org. See also *Foundation Yearbook*.
4. "Net noncharitable-use assets" is the average monthly fair market value of a foundation's assets over the tax year reported. This asset value, which is used to calculate private foundations' required payout, is found on IRS Tax Form 990-PF, Part X, line 5.

2

Components of Charitable Administrative Expenses: The Largest Independent Foundations

Of the 1,026 large independent foundations sampled, 928 (90 percent) reported some amount of charitable administrative expenses.¹ Figure 2.1 illustrates how these costs were allocated between 2004 and 2006 by expense category.

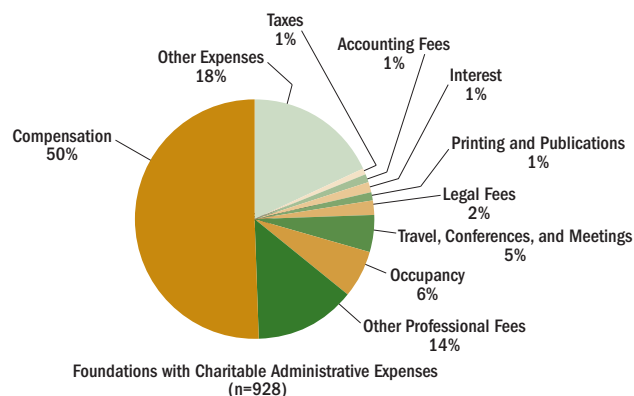
For foundations reporting expenses, the biggest component was by far compensation paid to staff, officers, and board members for duties related to charitable activities. Compensation accounted for half of all charitable expense dollars of the largest independent foundations. In addition to employee salaries and remuneration of officers and board members, “charitable” compensation also includes pension plans and other benefits;² it excludes investment-related salaries and expenses (see “What Are Charitable Administrative Expenses?,” p.5).

After compensation, the other main categories of charitable administrative expenses by share of dollars were “other expenses”³ (18 percent) and “other professional fees”⁴ (14 percent). Both of these categories are vaguely defined. In general, “other professional fees” refers

to consulting services associated with grants administration, accounting, foundation-administered programs, communications, and evaluation; while “other expenses” is a residual category for expenses that do not fit into one of the major line items on Form 990-PF, such as equipment and supplies, maintenance, new technology, and bank fees. In practice, however,

The biggest component [of expenses] was by far compensation paid to staff, officers, and board members for duties related to charitable activities.

FIGURE 2.1: Components of Charitable Administrative Expenses for the Largest Independent Foundations, 2004–2006



Source: The Foundation Center, 2011. Includes 928 foundations—out of 1,026 of the largest independent foundations sampled—that reported charitable administrative expenses. These are costs related to the foundation’s charitable mission and exclude investment-related expenses. The data are based on a three-year average for 2004 through 2006. Ninety-eight foundations did not have any charitable administrative expenses.

What Are Charitable Administrative Expenses?

Like other nonprofit and for-profit organizations, independent foundations incur operating and administrative expenses in conducting their business. These may include employee salaries and benefits, compensation of officers and board members, legal and accounting fees, investment services, travel, rent, utilities, and other expenses related to grantmaking, direct charitable activities, and general overhead. Private foundations,

including independent foundations, report these expenses annually on IRS Form 990-PF.

Not all operating costs, however, count as part of the qualifying distributions that comprise a foundation’s annual payout requirement. Only expenses related to grants administration and other mission-related activities are qualifying distributions, while investment-related expenses are

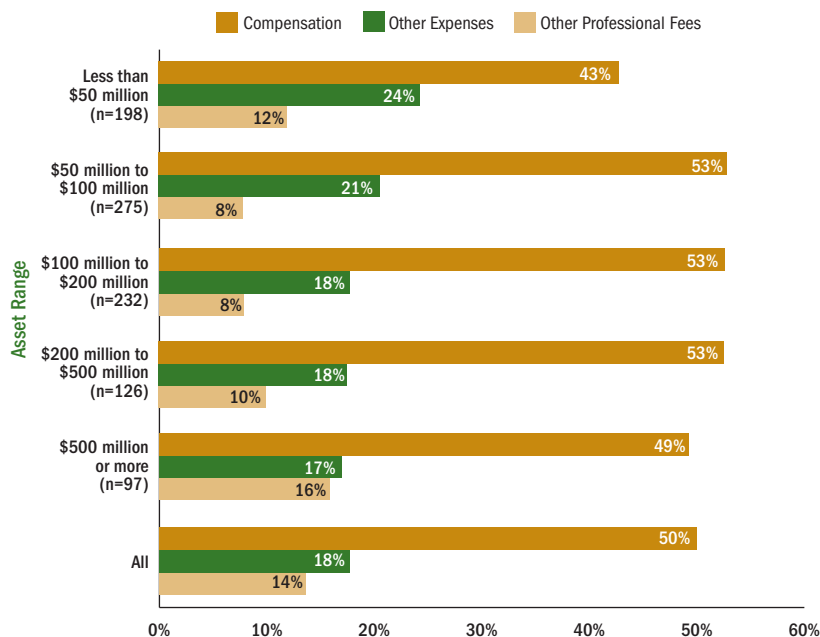
not. Throughout this report, the term “charitable administrative expenses” refers only to those expenses that qualify toward meeting payout. Investment-related expenses are excluded.¹

1. Total charitable administrative expenses for independent and corporate foundations are derived from IRS Form 990-PF, Part I, line 24, column d. The total represents the sum of Lines 13–23, column d.

both categories may include fees paid to consulting companies and institutions (e.g., banks) that take the place of salaried employees in carrying out the work of the foundation and developing new programs.⁵ As foundations increasingly turn to consultants and undertake direct charitable activities in addition to grantmaking, these categories need to be defined more clearly to permit better differentiation of expenses and encourage greater transparency (see “Recommendations for Changes to Form 990-PF,” p.6).

Together, compensation, other expenses and other professional fees accounted for 81 percent of all charitable administrative expenses of these large independent foundations. Among the other specified expense categories, only occupancy and travel represented at least 5 percent of expenses. Most of the remaining expenditure types, such as legal and accounting fees, accounted for between 1 and 2 percent of total expense dollars.

FIGURE 2.2: Compensation, Other Expenses, and Other Professional Fees as a Percentage of Charitable Administrative Expenses: Largest Independent Foundations, 2004–2006



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Includes 928 foundations—out of 1,026 of the largest independent foundations sampled—that reported charitable administrative expenses. These are costs related to the foundation’s charitable mission and exclude investment-related expenses. The data are based on a three-year average for 2004 through 2006. Ninety-eight foundations did not have any charitable administrative expenses.

Recommendations for Changes to Form 990-PF

This study and earlier studies of foundation expenses have revealed areas of Form 990-PF that should be improved to promote greater transparency. The following recommendations were published by the partners of the Foundation Expenses and Compensation Project in their 2006 study.¹ Since Form 990-PF has not been substantially revised since 2006, we are reprinting these suggestions.

Recommendation: Identify and pull out categories of expenses with “other expenses” and “other professional fees” to recognize the growing reliance on those items as foundations increasingly turn to consultants instead of paid staff and undertake direct charitable activities that are not easily captured in current categories.

- “Other expenses” (Part I, line 23): This category has become a catchall that obscures a significant amount of operating expenditures. The Form 990-PF should list two to four frequently reported components of those expenses currently not itemized. For example, based on preliminary research, one component might capture equipment, supplies, and maintenance, and another might capture insurance, bank fees, and dues, permitting “other expenses” to become a smaller residual category.
- “Other professional fees” (Part I, line 16c) should provide choices—for example, evaluation, administrative, technology, and communications—so that the residual is a small, undifferentiated set of services.
- Direct charitable activities (Part IX-A): These activities, which include foundation-operated programs and charitable-purpose facilities, are not clearly defined and are only partially listed on Form 990-PF. The form should provide a section to describe and account for all direct charitable activities and a separate column to report expenses attributable to those activities.

1. See Elizabeth T. Boris, Loren Renz, et al., *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (Washington, DC: The Urban Institute, The Foundation Center, and GuideStar, 2006), p. 39. The recommendations reprinted above focus only on foundation expenses, whereas the 2006 study also includes suggestions to improve reporting of foundation employee salaries and of trustee compensation (if any).

Expense Patterns, 2004 to 2006

Expenditure patterns were fairly consistent in 2004, 2005, and 2006 and there was no clear direction either upwards or downwards in the share of overall expenses represented by the principal expense components (Table 2.1). For example, throughout 2004, 2005, and 2006, compensation held steady at close to 50 percent of expenses, “other expenses” fluctuated between 17 percent and 19 percent, and “other professional fees” fluctuated between 12 percent and 14 percent. (Together these categories accounted for 81 to 82 percent of all expenses each year.) Most of the other categories, such as occupancy, travel, and accounting showed almost no change over the three years.

EXPENSE COMPONENTS BY ASSET SIZE

The 1,026 foundations in this study rank among the largest independent foundations by giving. Yet, some have hundreds of millions of dollars of endowment, others have smaller endowments, and some operate without an endowment. What effect does asset size have on the way that foundations allocate their expenses? Specifically, do foundations with large endowments,

which are more likely to have more complex infrastructure and programs, have different spending patterns than those with smaller endowments? To examine this question, foundations were grouped by asset size and the three main expense categories (compensation, “other expenses,” and “other professional fees”) were analyzed.

As Figure 2.2 shows, asset size has an effect on the share of spending allocated for these kinds of expenses. Yet the patterns are not always consistent as these examples show:

- Foundations with assets of less than \$50 million—which include many foundations that operate as pass-throughs⁶—reported the lowest share of compensation (43 percent compared with 50 percent for all foundations studied). Conversely, these smaller foundations reported by far the largest share of “other expenses” (24 percent versus 18 percent for all foundations) and the second largest share of “other professional fees” (12 percent versus 14 percent for all foundations). It is interesting to note that nearly all of these smaller foundations had “other expenses,” while only 46 percent had compensation and 41 percent had professional fees. In many cases, professional fees paid to consultants
- Mid-sized to large foundations—those with assets ranging from \$50 million to \$100 million, \$100 to \$200 million, and \$200 million to \$500 million—varied little in their spending patterns. They reported the highest shares of compensation (53 percent each), below-average shares of “other professional fees” (between 8 percent and 10 percent each), and average or above-average shares of “other expenses” (between 18 percent and 21 percent each).⁸ Also foundations in these asset groups expended a similar percentage of their expenses for compensation, “other professional fees” and “other expenses” combined (78 percent to 81 percent).

appear to replace or supplement compensation directly paid by these smaller foundations. However, in a few cases, foundations reported their largest consulting fees as “other expenses” or they lumped together all expenses (e.g., salaries, accounting and legal fees, taxes, supplies, etc.) and reported them as “other expenses.”⁷ It is not clear whether these differences in specific patterns reflect different operating strategies or whether or not all foundations are using the same line items on Form 990-PF to report the same types of expenses.

TABLE 2.1: Charitable Administrative Expenses for the Largest Independent Foundations by Type of Expense, 2004, 2005, and 2006 (expenses expressed as percentages)

Type of Expense	2004	2005	2006	Average 2004-06
Compensation	50.2	49.4	50.5	50.0
Legal Fees	1.8	1.8	2.0	1.9
Accounting Fees	1.1	1.1	1.3	1.2
Other Professional Fees	13.5	15.0	12.3	13.6
Interest	0.9	1.3	1.5	1.2
Taxes	0.9	0.7	0.8	0.8
Occupancy	6.6	6.5	6.2	6.4
Travel, Conferences, and Meetings	5.0	4.9	4.7	4.9
Printing and Publications	1.3	1.3	1.1	1.2
Other Expenses	17.5	16.8	18.8	17.7

Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Includes 928 foundations—out of 1,026 of the largest independent foundations sampled—that reported charitable administrative expenses. These are costs related to the foundation’s charitable mission and exclude investment-related expenses. Ninety-eight foundations did not have any charitable administrative expenses.

- The very largest foundations, with assets of at least \$500 million, spent relatively more of their charitable administrative expenses on compensation than smaller foundations but less than mid-sized to larger foundations. Compensation accounted for 49 percent of the expenses of the largest foundations, or slightly less than average. These foundations also reported a less-than-average share of “other expenses.” Conversely, the very largest foundations reported the biggest share of “other professional fees” (16 percent). In fact, foundations with the largest endowments spent relatively more than mid-sized to large foundations for compensation, “other professional fees” and “other expenses” combined (82 percent compared with 80 percent or less).

SUMMARY

For the largest independent foundations that reported some type of charitable administrative expense, compensation was by far the biggest component, followed by the catchall categories, “other expenses” and “other professional fees.” The distribution of these major expense categories was fairly consistent in 2004, 2005, and 2006; also, in each year these categories together accounted for 81 to 82 percent of all expenses. The size of a foundation’s assets had a modest effect on how a foundation allocated its charitable expenses, especially the share of expenses for compensation. In general, foundations with the smallest assets spent the least for compensation. However, the relationship between spending for “other professional fees” and “other expenses” is murky. Foundations may not be using these categories to report the same types of expenses. The form used by independent foundations to report their annual expenses (Form 990-PF) does not adequately differentiate the types of expenses incurred. Also, a few foundations are misusing the “other expenses” category to report all their expenses.

Endnotes

1. As noted in Chapter 1, most foundations that do not report charitable expenses are run by donors, their families, or unpaid board members. See also “Staffing Profiles of the Largest Independent Foundations,” p. 10.
2. Compensation that qualifies toward payout is reported on Form 990-PF, Part I, lines 13–15, column d.
3. “Other expenses” that qualify toward payout are reported on Form 990-PF, Part I, line 23, column d.
4. “Other professional fees” that qualify toward payout are reported on Form 990-PF, Part I, line 16c, column d.
5. Some foundations that voluntarily report having staff or shared staff in Foundation Center surveys do not report any charitable compensation on Form 990-PF, Part I, lines 13–15, column d. Instead, they report fees paid to consultants as either “other professional fees” or “other expenses.”
6. Pass-through foundations have no permanent corpus. Instead, grants and expenses are funded through annual or periodic gifts to the foundation from the donor(s) or the donor’s company. Foundations in this study are considered pass-throughs if their giving represents more than 25 percent of their year-end assets or if they hold less than \$100,000 in assets. Among the 198 foundations in the study holding assets of less than \$50 million, on average, 118 are coded as pass-through foundations.
7. Twenty of the 198 foundations having assets of less than \$50 million, on average, report at least 75 percent of their total charitable administrative expenses as “other expenses,” including 10 foundations for which “other expenses” represents 100 percent of expenses. Foundations that report “other expenses” usually provide a schedule that itemizes types of expenses.
8. Foundations with assets of \$50 million to \$100 million have the second largest share of “other expenses” (21 percent). They follow foundations with assets of less than \$50 million, whose share of “other expenses” is 24 percent. In fact, as foundations increase in asset size, their share of “other expenses” decreases, from 24 percent for the smallest foundations to 17 percent for the very largest. This pattern suggests that smaller foundations are the most apt to use “other expenses” as a catchall for expenses that should be reported elsewhere.

3

Foundation Operating Characteristics and Charitable Administrative Expenses: The Largest Independent Foundations

Policy discussions of foundations often focus on how much they spend on administrative activities relative to their grantmaking and programmatic activities. Foundations themselves seek guidance on this question from their peers and professional associations. To address this question and assess the factors that drive administrative expenses, we analyze the ratio of charitable administrative expenses to qualifying distributions. This ratio provides an efficient way to compare expense levels of different types and styles of foundations over time.

This chapter explores how operating characteristics, activities, and giving levels influence charitable administrative expense ratios for 1,026 large independent and family foundations.¹ The analysis examines the median

ratio (the middle value) of charitable administrative expenses to qualifying distributions for each characteristic, using a three-year average (2004 to 2006) (see Appendix A); documents whether patterns are consistent throughout the study years; and compares the effect of these characteristics on the 2004 to 2006 spending patterns of large independent foundations with results of a study of 2001 to 2003 foundation expenses.²

For the 1,026 foundations studied, program-related administrative expenses represented 6.8 percent of qualifying distributions. That said, no single percentage applies broadly to independent foundations since not all foundations conduct their grantmaking and other charitable activities in the same way and therefore incur different

A span this broad suggests the need to pay close attention to the complexity of their programs and operations when assessing expense-to-qualifying distributions or any other financial measure.

How Are Charitable Administrative Expenses Measured?

Qualifying distributions are all disbursements that count toward the minimum 5 percent payout requirement for private foundations. These include mainly grants, which account for the lion's share of this key line item for most foundations, and grant- and program-related administrative expenditures.¹ Measuring the relationship of grants to qualifying distributions is one way to look at foundation practice. But an alternative approach—examining the relationship between charitable administrative expenses and qualifying distributions—shows how the different ways that foundations conduct their work raise or lower expense levels. Examining the operating characteristics of foundations provides insight into the diversity of the foundation community and a robust picture of expense

patterns. It also sheds light on the non-grantmaking charitable activities of foundations, which are often overlooked in studies of foundation spending patterns.

This chapter looks at the following characteristics:

- Amount of giving
- Employment and number of staff
- Geographic scope of giving
- “Family foundation” status, i.e., donor-family involvement in the foundation
- “Pass-through foundation” status, i.e., foundations without a significant asset base
- Direct charitable activities, i.e., non-grantmaking programs carried out by a foundation

- Grants to individuals, such as scholarships, fellowships, and prizes
- Program-related investments, i.e., no- or low-interest loans for charitable purposes
- Health conversion status, i.e., having been created from the sale of a not-for-profit hospital or health organization to a for-profit enterprise
- Maintenance of a web site

1. Qualifying distributions may also include program-related investments, set-asides, and amounts paid to acquire assets for charitable purposes. But these components combined represent only a tiny portion of the total. Private foundations report their qualifying distributions on Form 990-PF, Part II, line 44, column b.

levels of expense. Indeed, even among these large foundations, nearly one-in-ten (98) reported no program-related administrative expenses, while others—especially those with large staffs and complex programs—had significant expenses.³

This chapter assesses the effect of a broad range of independent foundation operating characteristics on the expense portion of qualifying distributions (see “How Are Charitable Administrative Expenses Measured?,” p. 9). We look first at foundation characteristics that are positively associated with higher administration expense ratios—such as staff size, scope of giving, and engagement in direct charitable activities—then at factors, such as donor-family involvement and acting as a pass-through foundation, that moderate charitable expense ratios. Nearly all of the characteristics that are examined in this study were also examined in the study of 2001 to 2003 expense patterns, and the findings on the effects of these characteristics are compared for the two periods as appropriate. The

administrative expense levels of health conversion foundations, however, are examined separately for the first time.

INFLUENCE OF PAID STAFF

- Employment of staff is the single most important factor affecting expense levels
- Staffed foundations have consistently higher program-related expense ratios than unstaffed foundations
- Foundation size also affects expense levels

Employing staff was the single most important factor influencing charitable administrative expense levels of independent foundations (see “Staffing Profile of the Largest Independent Foundations,” p. 10). As Figure 3.1 illustrates, staffed foundations, which made up more than two out of three foundations in this study, consistently spent substantially larger portions of their qualifying distributions on charitable administrative expenses. On average, between 2004 and 2006,

For those foundations with paid staff, which accounted for the lion’s share of expenses, median expense ratios decreased slightly between 2004 and 2006.

Staffing Profile of the Largest Independent Foundations

Foundations administer grants and programs through the efforts of a mix of people, including paid staff, representatives from banking, law, and investment firms, and board members. In this study, foundations are flagged as staffed if they report having paid staff in Foundation Center surveys or on their web sites or if they list staff members and/or report a minimum level of staff-related compensation and benefits on Form 990-PF (see Appendix A). Based on 2004 to 2006 data, more than two-thirds of the 1,026 larger independent foundations studied (707) employed staff. Still, nearly one-in-three foundations (319)—all ranked among the nation’s top 1,500 foundations by giving—did not employ staff. Instead, they relied on individual and institutional board members—both compensated and uncompensated—on paid consultants to administer their programs.

Staffing Profile of Independent Foundations, 2004-2006

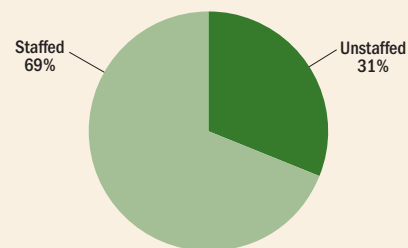
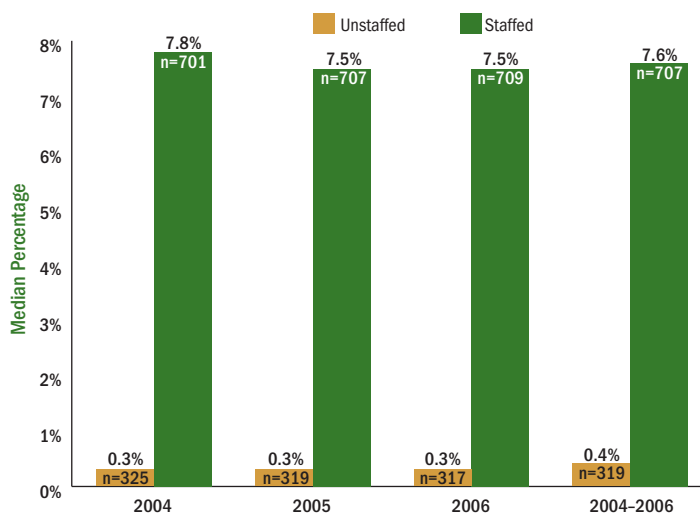


FIGURE 3.1: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004, 2005, and 2006: Staffed and Unstaffed Independent Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

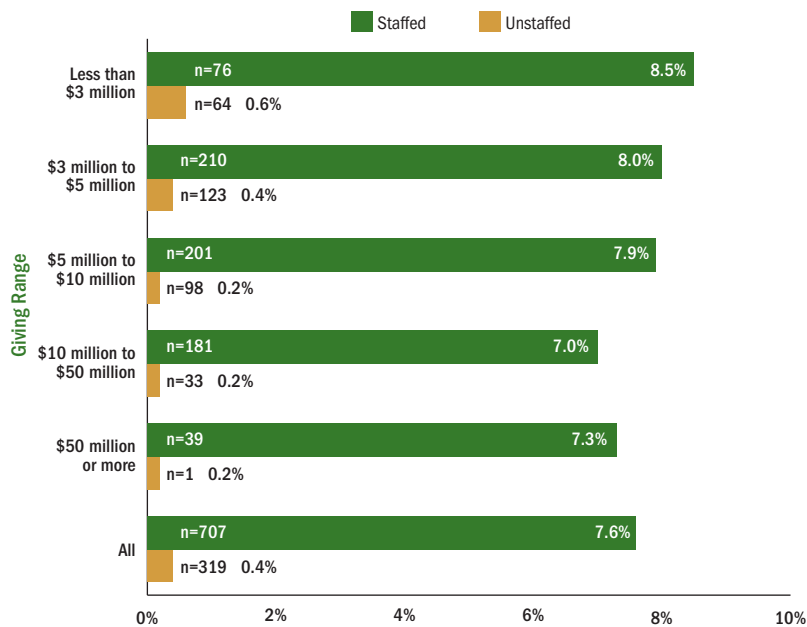
median charitable administrative expenses were nearly 8 percent of qualifying distributions for foundations with paid staff but less than 1 percent for those without staff.

For those foundations with paid staff, which accounted for the lion's share of expenses, median expense ratios decreased slightly between 2004 and 2006.⁴ In general, this was a cautiously favorable period for foundation finances. After suffering three consecutive years of stock market losses at the start of the decade (2000 to 2002), foundation assets began to rebound in 2003 and this trend continued through 2006 (see Chapter 1). Since giving and payout are driven by asset valuation, many foundations increased their giving during this period. When giving levels increase at a faster pace than expenses, the program-related expense portion of qualifying distributions decreases.

In general, smaller foundations in the study reported somewhat higher median expense-to-charitable distribution ratios than the largest foundations (Figure 3.2). For the smallest staffed foundations—those giving, on average, between \$2.2 million (the study threshold) and \$3 million—charitable administrative expenses represented almost 9 percent of qualifying distributions, compared with 7 percent for those that gave over \$10 million. For foundations in the middle ranges—i.e., those giving between \$3 million and \$10 million—the median was about 8 percent. These patterns point to modest economies of scale at work.⁵ Similarly, the largest unstaffed foundations also reported the lowest median ratios.

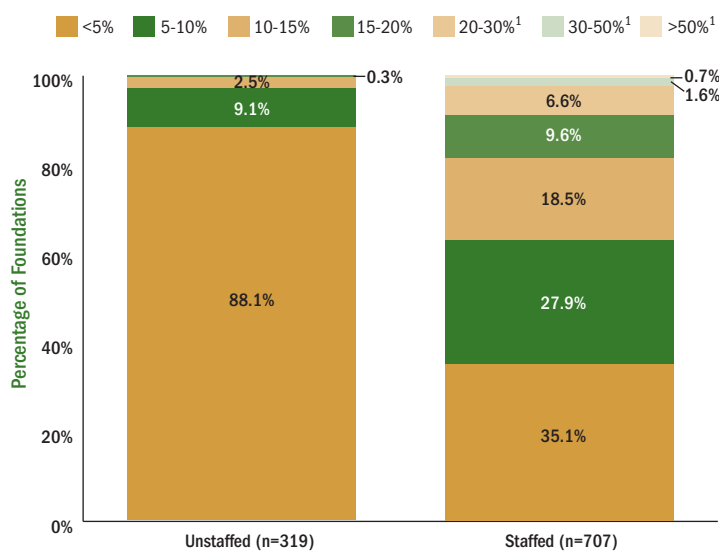
Program-related expense ratios of independent foundations in this study period varied only slightly from expense ratios of comparable-size foundations in the 2001 to 2003 study. Depending on their giving level, staffed foundations reported median expense ratios that were sometimes higher in the latest period and sometimes lower. For example, foundations giving, on average,

FIGURE 3.2: Charitable Administrative Expenses as a Share of Qualifying Distributions by Giving Range, 2004–2006: Staffed and Unstaffed Independent Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

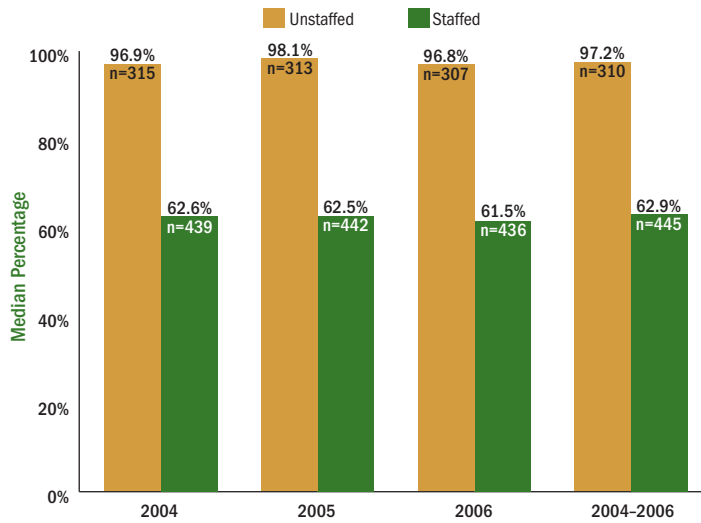
FIGURE 3.3: Distribution of Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Staffed and Unstaffed Independent Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

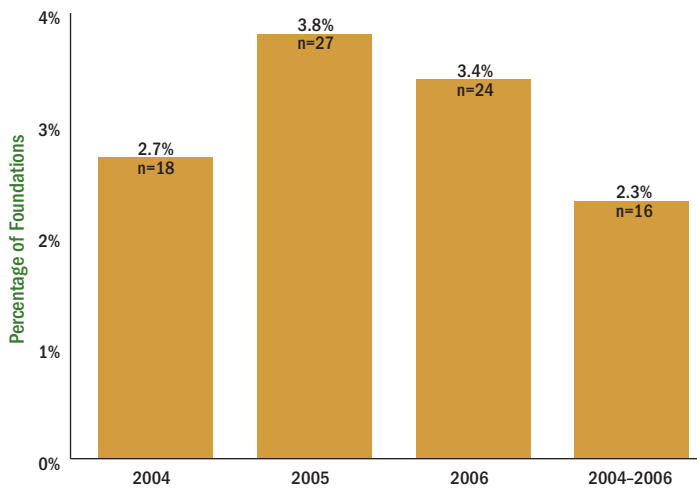
¹No unstaffed foundations have an average charitable administrative expenses-to-qualifying distribution ratio greater than 20 percent.

FIGURE 3.4: Percentage of Foundations with Charitable Expense-to-Qualifying Distribution Levels Below 10 Percent, 2004, 2005, and 2006: Staffed and Unstaffed Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

FIGURE 3.5: Percentage of Foundations with Charitable Expense-to-Qualifying Distribution Levels Above 30 Percent, 2004, 2005, and 2006: Staffed Independent Foundations



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

Note: No unstaffed foundations had charitable administrative expenses-to-qualifying distribution ratios greater than 30 percent in any year.

\$50 million or more had median ratios of 7 percent in the 2004 to 2006 study and 6 percent in the 2001 to 2003 study, while those giving \$10 million to \$50 million had median ratios of 7 percent in the current study compared with 8 percent in the 2001 to 2003 study. For staffed foundations in size categories that could be compared, median ratios averaged between 7 and 8 percent in both study periods.⁶

While the medians represent the most typical expense levels for staffed and unstaffed foundations, they obscure the actual diversity in practice that is illustrated by the range of ratios (Figure 3.3). In general, unstaffed independent foundations have much lower expense ratios than staffed foundations. In fact, 21 percent of unstaffed foundations (68) reported no expenses at all, while 88 percent had on average, ratios of less than 5 percent. Less than 3 percent of these foundations (or nine of them) reported expense ratios above 10 percent and none reported ratios above 20 percent.

Even for staffed foundations, the most common expense ratios were the lowest ones: 35 percent of large staffed foundations had expense ratios under 5 percent, while another 28 percent had ratios between 5 and 10 percent. Just over 81 percent had ratios of less than 15 percent. At the high end, 2 percent of larger staffed foundations (16) spent, on average, more than 30 percent of their qualifying distributions for program-related expenses.

Between 2004 and 2006, the proportion of foundations having expense-to-qualifying distribution ratios of less than 10 percent remained steady (Figure 3.4). Roughly 97 percent of unstaffed foundations and 63 percent of foundations with paid staff fell within this range each year. Such consistency reflects an overall stable trend in levels of foundations' charitable administrative expenses relative to giving during this period. It stands in contrast with 2001 to 2003 trends.⁷ As noted above, 2004

to 2006 were years of modest economic growth and a steady rise in the overall market value of foundation assets, whereas 2001 to 2003 were volatile years.

The proportion of staffed foundations with expense ratios greater than 30 percent also remained constant—at roughly 3 percent—over the current study period (Figure 3.5).⁸ Sixteen large independent staffed foundations reported, on average, expense ratios of 30 percent or more between 2004 and 2006. Of these, 13 foundations had expenses levels of 30 percent or more in all three years. Presumably, these foundations engaged regularly in high-cost practices or activities. (For more information, see “Factors Common to Foundations with the Highest Expense Ratios,” p. 13).

In sum, staff costs drive up charitable administrative expense ratios. From 2004 to 2006, staffed foundations spent

on average nearly 8 percent of their qualifying distributions on program-related administrative expenses, while foundations with no paid staff reported only nominal expense levels. Over this period, 63 percent of staffed foundations had, on average, ratios of less than 10 percent, and this proportion remained steady from year to year. The proportion of foundations with the highest ratios, greater than 30 percent, also remained constant at around 3 percent. For foundations of comparable size, there was relatively little change in average expense levels in 2004 to 2006 compared with 2001 to 2003, even though year-to-year patterns differed strikingly for these periods. These findings confirm the importance of a multi-year approach in studying foundation finances. Only a multi-year analysis evens out annual fluctuations and accurately depicts foundations’ typical spending patterns.

Since staffing so strongly affects the expense patterns of independent foundations, the analyses of other operating characteristics (below) include only staffed foundations.

INFLUENCE OF STAFF SIZE

- **Expense levels rise consistently with the number of staff, but bigger foundations realize economies of scale**
- **Between 2004 and 2006, expense ratios decreased slightly for foundations with the biggest staffs**

For foundations that employ staff, staff size strongly affects expense-to-qualifying distribution levels (see “How Is Foundation Staff Size Identified?,” p. 14 and Table 3.1). As the number of staff increases, so does the median ratio. For example, for the 201 staffed foundations that gave between \$3 million and \$5 million, the ratio rose from close

Factors Common to Foundations with the Highest Expense Ratios

For 13 independent foundations in this study, the expense portion of qualifying distributions was greater than 30 percent in all years. (On average, their expense ratios ranged from just over 30 percent to 66 percent.) All 13 foundations employed staff and all gave at least \$3 million a year in grants. To understand the factors that drive consistently higher-than-average ratios for these few foundations, we reviewed their Forms 990-PF for 2004, 2005, and 2006. In addition to employing a relatively large number of staff—the median staff size for these foundations was 39—two factors were identified:

Direct charitable activities (DCAs).

Twelve of the 13 foundations engaged regularly in direct charitable activities. These activities ranged from conducting research (e.g., agricultural, environmental, and health policy) and educational programs to designing and maintaining websites for particular

beneficiary groups to operating museums, community facilities, and conference centers. DCAs represented at least two-thirds of charitable administrative expenses for the majority of these foundations. While there is no way to correlate DCA costs with specific charitable expense items on the Form 990-PF, compensation accounted for more than half of total charitable administrative expenses for nine of the 12 foundations. (For more information on the effect of direct charitable activities on expense levels, see p. 17.)

Use of Carryover.¹ All 13 foundations gave, on average, at least \$3 million a year. In addition, four foundations (31 percent) used some of their excess distributions from earlier years to meet a portion of their payout requirement. Two foundations used carryover in 2004 and two used it in 2006.² Apparently, these foundations had paid out at high levels in past years

relative to their asset values. All four foundations that had expense levels consistently above 30 percent and that applied carryover between 2004 and 2006 also engaged in direct charitable activities.

1. By law, foundations that pay out more than the required 5 percent minimum in a tax year can apply their excess distributions to any of the following five years. Using carryover can distort the expense ratio since carryover is not added into the sum of qualifying distributions on Form 990-PF. All of the foundations examined that used their excess distributions carryover to help meet their payout requirement in a particular year applied only a portion of the total amount available. As reported on Form 990-PF, Part XIII, line 9, the remaining amount was carried over to the following year.
2. In the 2001 to 2003 study of independent foundations, 69 percent of the foundations that had expense ratios in excess of 30 percent in all three years also used carryover in all three years. It appears that carryover is used much more often by foundations in a period of steeply declining asset values than in a period of steady growth in asset values.

to 3 percent when there was only one person on staff to nearly 21 percent if there were 7 to 14. Similarly, for the 176 foundations that gave between \$10 million to \$50 million, the ratio increased from less than 2 percent if there were two to three staff persons to almost 14 percent if there were 15 to 50.

How Is Foundation Staff Size Identified?

The Foundation Center asks foundations about their staff size and composition in its annual foundation survey. For the vast majority of foundations that responded during the study years, staff size was derived from the survey and an average number was drawn. For foundations identified as staffed that did not report a staff number in the survey, information was gathered from foundation annual reports, Forms 990-PF, and websites. Of the 707 foundations identified as employing staff, 678 had staff size information. Of the 29 foundations that were missing a staff number, a handful reported “shared” staff in survey responses; the others reported staff-related compensation on their tax returns, but information on personnel was unavailable.

On the other hand, foundations with roughly the same number of staff report decreases in the median ratio as giving increases, suggesting economies of scale. For example, foundations with four to six staff (a typical staff size category) had ratios of almost 16 percent when giving was under \$3 million but roughly 5 percent when giving exceeded \$10 million.

Foundations that give the most tend to have the largest staffs. Indeed, for the 39 foundations that, on average, gave over \$50 million, 16 employed more than 50 staff, of which eight employed more than 100 staff. Median expense ratios for these very large foundations ranged from 4 percent to more than 22 percent. A span this broad suggests the need to pay close attention to the complexity of their programs and operations when assessing expense-to-qualifying distributions or any other financial measure.

Employing more staff consistently increases charitable administrative expense levels over the study years (Figure 3.6). But while the median ratio of expenses to qualifying distributions stayed about the same for nearly all staff sizes between 2004 and 2006, it decreased slightly for foundations with the largest staffs. Foundations with 50 or more staff had ratios of 14 percent in 2006, down from nearly 16 percent in 2004.

Why? One possible explanation for the decrease in expense levels among foundations with the biggest staffs is that these funders held the line on hiring during this period, even as giving levels were rising. In fact, between 2004 and 2006 the number of staff either stayed the same or decreased for 12 of the 18 foundations that reported 50 or more staff in 2004.⁹ Similarly, over the same period, it either stayed the same or decreased for seven of the nine foundations that reported 100 or more staff in 2004.¹⁰

Employing more foundation staff is often associated with bigger endowments and giving programs. However, what foundations do as much as how big they are affects the need for staff. The next several sections of this report examine staff-intensive or resource-intensive practices and their effect on foundation expense levels.

INFLUENCE OF GEOGRAPHIC SCOPE OF GIVING

- Median expense levels increase with geographic scope of giving
- International givers have cost ratios that are, on average, twice as high as local givers

Geographic scope of giving strongly influences charitable administrative expense levels (“How Is Geographic

TABLE 3.1: Charitable Administrative Expenses as a Share of Qualifying Distributions by Giving Range, 2004-2006: Staff Size (Staffed Independent Foundations)

Giving Range	1 Staff		2-3 Staff		4-6 Staff		7-14 Staff		15-50 Staff		>50 Staff		All
	Median %	Number of Foundations	Median %	Number of Foundations	Median %	Number of Foundations	Median %	Number of Foundations	Median %	Number of Foundations	Median %	Number of Foundations	Number of Foundations
Less than \$3 million	3.5	22	9.0	30	15.8	17	26.6	3	n/a	0	n/a	0	72
\$3 million to \$5 million	2.6	43	6.7	81	11.3	54	20.6	19	20.9	3	n/a	1	201
\$5 million to \$10 million	1.8	27	4.6	62	9.5	58	15.8	32	25.0	10	n/a	1	190
\$10 million to \$50 million	2.0	15	1.4	31	5.5	38	8.8	44	13.6	46	n/a	2	176
\$50 million or more	n/a	0	n/a	1	n/a	2	1.9	5	6.0	15	12.9	16	39
All	2.3	107	5.5	205	9.2	169	12.6	103	13.6	74	14.5	20	678

Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

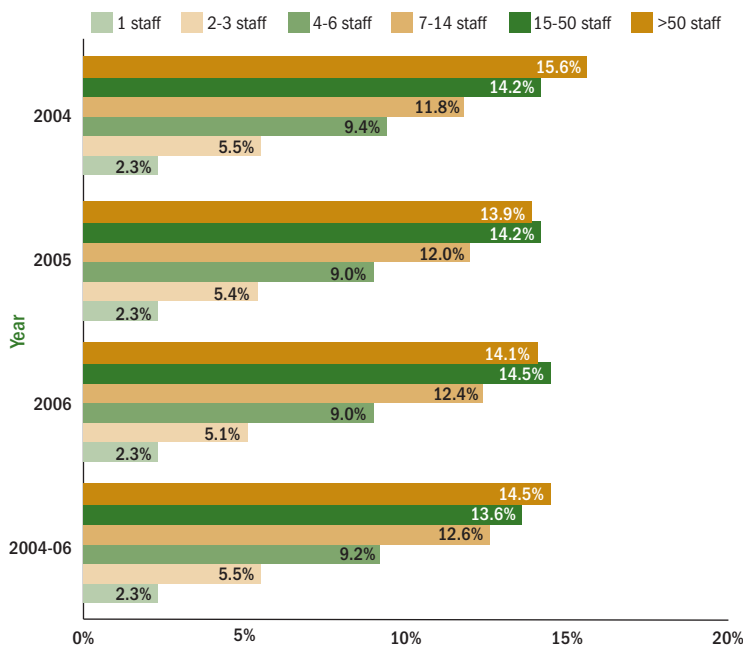
n/a = fewer than 3 foundations in this category

Scope of Giving Determined?,” p. 15 and Table 3.2). Foundations that make grants internationally or globally had a higher median expense-to-qualifying distribution ratio (nearly 12 percent) than those that gave only locally (7 percent). Foundations that gave nationally also spent more than local givers (9 percent).

Program-related expense levels of international, national, and local foundations stayed about the same from 2004 to 2006. In each year, international givers reported median expense ratios that were nearly twice as high as local givers and about 50 percent higher than national givers.

International giving raises expense levels for foundations across giving groups, but foundation size counts too. Median expense ratios of international givers were higher for foundations that gave less than \$5 million and a little lower for bigger foundations. These economies of scale hold for local givers as well. In

FIGURE 3.6: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004, 2005, and 2006: Staff Size (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

How Is Geographic Scope of Giving Determined?

Most staffed independent foundations in this study give locally. Based on the 2004 to 2006 three-year patterns, 499 (71 percent) primarily gave locally or within their state, 127 (18 percent) gave nationally, and 77 (11 percent) gave internationally. (Four foundations were missing a scope of giving code.) Scope of giving is determined from foundation survey responses and published grant lists. The Foundation Center surveys foundations, examines their grant lists annually to ascertain geographic scope of giving, and codes foundations as local, national/international, or international only. In the 2004 to 2006 dataset, foundations were coded for scope of giving based on a two-out-of-three year rule. Most foundations do not change their scope of giving from one year to another.

TABLE 3.2: Charitable Administrative Expenses as a Share of Qualifying Distributions by Giving Range, 2004-2006: Geographic Scope (Staffed Independent Foundations)

Giving Range	Local Giving		National Giving		International Giving		All
	Median %	Number of Foundations	Median %	Number of Foundations	Median %	Number of Foundations	Number of Foundations
Less than \$3 million	7.8	59	7.7	10	13.2	7	76
\$3 million to \$5 million	7.6	157	8.9	35	14.3	17	209
\$5 million to \$10 million	6.7	150	8.2	27	11.4	23	200
\$10 million to \$50 million	5.6	118	9.9	42	10.6	19	179
\$50 million or more	5.3	15	9.3	13	11.5	11	39
All	6.6	499	9.0	127	11.6	77	703

Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff. Four staffed foundations were missing geographic scope information.

general, the largest foundations that gave locally had the lowest median expense ratio by geographic scope (5 percent). Conversely, smaller foundations that gave internationally had the highest median ratio (13 to 14 percent).

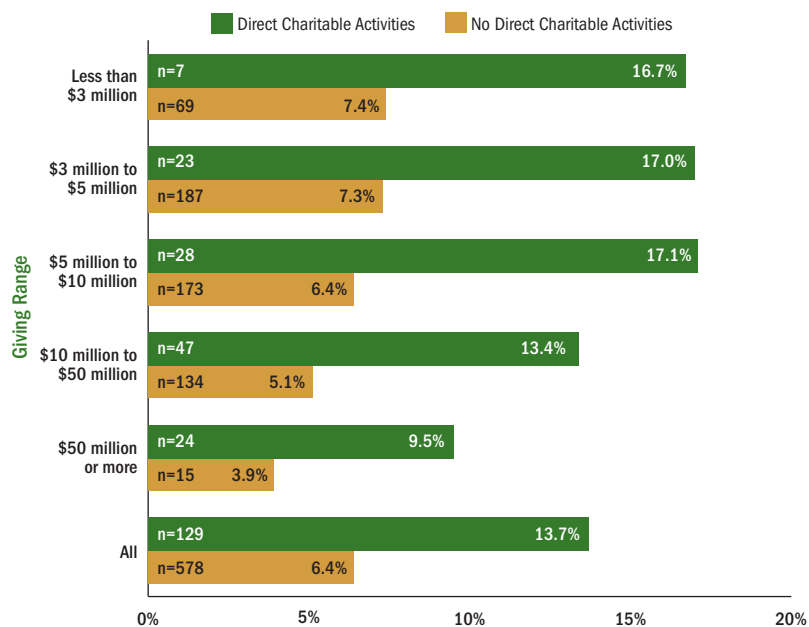
This study's findings on the effects of geographic scope on foundation expense levels from 2004 to 2006 are consistent for foundations of comparable size in the 2001 to 2003 study. Although the median ratios of local, national, and international givers of similar size differed slightly by period, in both periods the largest local givers had the lowest expense ratios and the smallest international givers had the highest ratios. Also, international givers had costs that were roughly twice as high as local givers of comparable size.¹¹

In general, foundation expense levels increase with geographic scope of giving—especially for international giving. Presumably, larger staffs are

needed to manage distant programs, and expense items including travel, communications, operating overseas offices, and consulting cost more. Foundations that make grants directly overseas bear additional burdens associated with the post-9/11 era, such as tighter regulations on making grants to non-U.S. organizations, more rigorous due diligence requirements for screening grantees, and increased security needs.¹² Throughout this period, smaller foundations that engaged in international grantmaking spent the most to administer these programs. Of course, such costs must be weighed against other gains: many small-to-medium-sized grantmakers engage in international work precisely because their philanthropic dollars are worth much more in the most impoverished countries and therefore will have a greater impact on their needs and problems.

Many small-to-medium-sized grantmakers engage in international work precisely because their philanthropic dollars are worth much more in the most impoverished countries and therefore will have a greater impact on their needs and problems.

FIGURE 3.7: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Direct Charitable Activities (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

INFLUENCE OF DIRECT CHARITABLE ACTIVITIES

- Foundations that engage in direct charitable activities have expense ratios that are twice as high as those that solely make grants
- Median expense ratios are much higher for smaller foundations that engage in DCAs than for the largest ones

Whether foundations achieve their missions solely by grantmaking or through a mix of grants and foundation-administered programs—also known as direct charitable activities—strongly affects their expenditure patterns (see “What Are Direct Charitable Activities and Who Uses Them?” below and Figure 3.7). Staffed foundations that engaged in direct charitable activities (sometimes referred to as DCAs) in the 2004 to 2006 period reported expense-to-qualifying distribution ratios that were, on average, more than twice as high as those that made grants only (14 percent versus 6 percent).

Not surprisingly, most foundations that administer their own programs require relatively large staffs. For example, of the 129 staffed foundations with DCAs, 84 percent employed at least four staff and 43 percent employed at least 15 staff.

Also, of the 20 foundations in this study that had more than 50 staff, 90 percent reported such activities. As discussed earlier, more staff drives up costs.

Along with the staff-intensive nature of direct charitable activities, expense levels are much higher for small- and medium-size foundations that engage in these activities than for larger ones. The median ratio increased from 10 percent for foundations that gave, on average, \$50 million or more to 17 percent for foundations that gave less than \$10 million. Also, smaller givers that engage in direct charitable activities represented a large majority of the foundations in this study that had administrative expense ratios consistently greater than 30 percent (see p. 11). For some smaller givers, DCAs represent a substantial portion of their charitable work—sometimes larger than their grantmaking—while these activities tend to be a more modest share of larger foundations’ diversified charitable “portfolios.”

For three smaller grantmakers (all giving less than \$8 million) that operate their own programs, charitable administrative expenses represented more than 50 percent of qualifying distributions, and DCA expenditures exceeded giving. While these foundations

Staffed foundations that engaged in direct charitable activities reported expense-to-qualifying distribution ratios that were, on average, more than twice as high as those that made grants only.

What Are Direct Charitable Activities and Who Uses Them?

The Internal Revenue Service provides a detailed listing of the types of direct (i.e., non-grantmaking) charitable activities that private foundations may report.¹ Activities reported by foundations in this study include operating direct service programs and maintaining facilities used for direct services, maintaining a museum, convening educational conferences, operating conference sites for nonprofit use, conducting research (e.g., scientific, agricultural, health policy) and disseminating reports on research findings, running fellowship

and awards programs, providing technical assistance to grantees, and maintaining web sites on mission-related issues. Only 133 of the 1,026 foundations studied (13 percent) engaged regularly in direct charitable activities (DCAs) and nearly all of them (129) employed paid staff. Although staffed foundations of all sizes conduct DCAs, the largest ones were most likely to do so: 62 percent of foundations that gave \$50 million or more had DCAs, compared with just 10 percent of those that gave less than \$5 million. The relatively high

occurrence of DCAs among the largest foundations underscores the resource- and staff-intensive nature of these activities.²

1. Internal Revenue Service. Instructions for Form 990-PF. Retrieved January 7, 2011, from Internal Revenue Service web site: www.irs.gov/instructions/i990pf/ch02.html#d0e4214
2. For information on the foundations that engage in direct charitable activities and why they use them, see *More than Grantmaking: A First Look at Foundations' Direct Charitable Activities* (New York: Foundation Center, 2007) at foundationcenter.org/gainknowledge/research/pda/dca_2007.pdf

are not classified legally as operating foundations and they make some grants, they appear to function largely like operating foundations. For example, one foundation has three operating divisions and conducts agricultural and plant research, another runs a learning program for children with learning and attention problems, while the third developed and maintains a comprehensive web site devoted to people with lupus.

The median expense level for all foundations with DCAs remained steady at about 14 percent between 2004 and 2006. Apparently, foundations' support for their own operating programs kept pace with the growth of their giving. During a period of relative restraint in the growth of administrative expenses, foundations maintained their operating programs.

Foundations that engaged regularly in direct charitable activities from 2004 to 2006 had median charitable expense ratios that were consistent with the levels reported by foundations of similar size in the 2001 to 2003 study. In both periods expense levels were at least twice as high for foundations that operated their own programs as for those that solely made grants, and the cost was highest for small foundations. Also, in both periods engaging in direct charitable activities frequently resulted in the highest expense-to-qualifying distributions ratios. As noted earlier, 12 of the 13 foundations in this study with expense ratios consistently greater than 30 percent

engaged regularly in direct charitable activities. In the 2001 to 2003 study, the results were similar for foundations of roughly comparable size.¹³

OTHER FACTORS THAT INCREASE CHARITABLE ADMINISTRATIVE EXPENSE RATIOS

- **Making grants to individuals, operating as a health conversion foundation, making program-related investments, and maintaining a web site are other practices associated with consistently higher median expense levels of staffed foundations**

Four other factors appear to raise the program-related administrative expense portion of qualifying distributions: grants to individuals, program-related investments, health-conversion or “new health” foundation status, and maintenance of a website. While the majority of the 1,026 larger independent foundations studied do not engage in these activities, many foundations with paid staff and high levels of giving do.

As Table 3.3 indicates, staffed foundations that engage in these practices had median administrative expense ratios that were, on average, roughly twice as high as those that do not. These patterns were consistent for 2004, 2005, and 2006; and they are similar to patterns identified in the 2001 to 2003 study for foundations of comparable size.¹⁴ Along with these general observations, however,

there were some notable differences in the prevalence of these activities among foundations of different giving levels and in their relative effect on the expense levels of larger and smaller foundations.

Grants-to-Individuals Programs. Only 18 foundations regularly made grants to individuals (see “What Are Grants-to-Individuals Programs?,” p. 18) and most of them were small: 12 foundations had giving of less than \$5 million, while only four had giving in excess of \$10 million (Figure 3.8).¹⁵ For staffed foundations in this study, operating a grants-to-individuals program was associated with

What Are Grants-to-Individuals Programs?

The vast majority of foundations make grants exclusively to nonprofit organizations, but a few make grants to individuals. These grants mainly take the form of scholarships, fellowships, awards, or prizes. Making grants to individuals is governed by special legal requirements: To ensure objectivity in the selection process, federal tax law requires that a foundation planning to make grants to individuals obtain advance approval of its selection criteria and procedures from the IRS.¹

To qualify as a grants-to-individuals foundation, a foundation must have made grants to individuals in at least two of the three study years, and these grants must have represented at least 10 percent of their overall giving. Only 19 of the 1,026 sampled independent foundations met these criteria. With one exception, grants-to-individuals foundations were staffed. Although a few large foundations make grants to individuals, smaller foundations are more likely to do so.

1. David F. Freeman, *The Handbook on Private Foundations*, 3rd ed. (Washington, DC: Council on Foundations, 2005, p. 66).

TABLE 3.3: Other Factors with a Positive Effect on Administrative Expense Ratios, 2004–2006 (Staffed Independent Foundations)

	Median Expense Ratios for Foundations With or Without This Activity			
	With	No. of Foundations	Without	No. of Foundations
Operates a grants-to-individuals program	17.0%	18	7.3%	689
Operates as a health conversion foundation	13.0%	25	7.3%	682
Makes program-related investments	11.6%	54	7.2%	653
Maintains a web site	10.0%	468	3.6%	239

Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

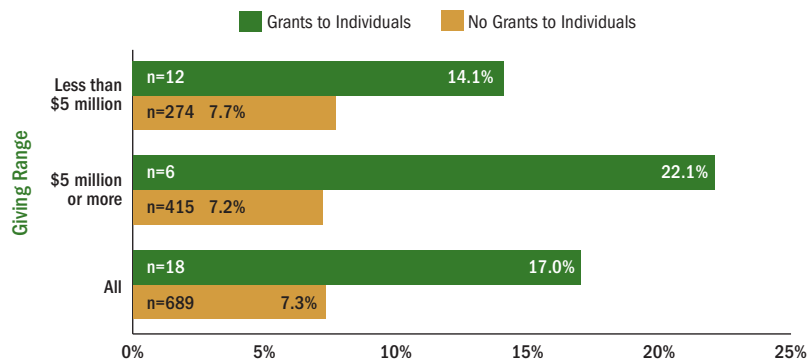
higher program-related expense levels: ratios were nearly two and a half times greater than those of foundations that made grants solely to organizations (17 percent versus 7 percent). Moreover, eight grants-to-individuals foundations reported, on average, expense ratios greater than 20 percent and three had ratios above 30 percent. It bears noting that the foundations with the highest ratios devoted all or nearly all of their giving to grants-to-individuals programs. Also of interest is that larger foundations engaged in this practice did not report economies of scale. In fact, while all sizes

of grants-to-individuals foundations have higher administrative costs, the handful of grantmakers giving more than \$10 million had the highest median ratio (22 percent).

The higher costs associated with making grants to individuals reflect the resource-intensive nature of such activity. Operating a grants-to-individuals program is likely to involve a larger staff to manage the program and oversee large numbers of relatively small grants and also higher costs associated with publicizing the existence of the programs,

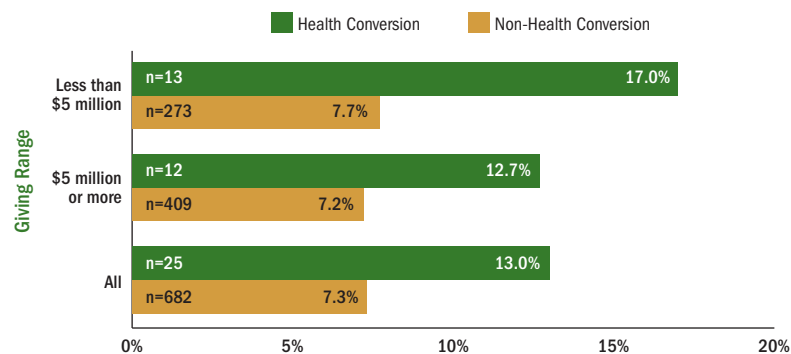
coordinating the work of peer review and advisory committees, and complying with legal and reporting requirements. These needs and requirements are reflected in the higher-than-average number of staff employed by grants-to-individuals foundations compared to foundations of similar size that make grants solely to organizations.¹⁶ In addition, some foundations that operate these programs, especially fellowship and awards programs, incur higher costs associated with convening grantees at conferences and other events. Because of the hands-on nature of these activities, some of the

FIGURE 3.8: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Grants to Individuals (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

FIGURE 3.9: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Health Conversion Foundations (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

What Are Health Conversion Foundations?

The vast majority of independent foundations were created by individual donors or families. Since the 1970s, however, some foundations have been formed from the sale of not-for-profit hospitals and health organizations to for-profit enterprises.¹ Since federal law requires that proceeds from the sale of assets of tax-exempt entities be directed towards charitable purposes, one result of these conversions has been the creation of a number of new foundations (both private and public) commonly referred to as “new health” foundations or “health conversion” foundations. Most health conversion foundations share the goal of increasing access to health care in their regions and improving health outcomes. Of the 1,026 larger private independent foundations studied, just 25 (2 percent) were health conversion foundations. Though a few health conversion foundations were very large and all 25 were administered by professional staff, most of them (13) gave, on average, less than \$5 million a year between 2004 and 2006.

1. For more information, visit: foundationcenter.org/getstarted/faqs/html/health_conv.html.

largest grants-to-individuals programs are administered as direct charitable activities. As discussed earlier, when foundation staff directly run programs, expense levels tend to be higher (see “What Are Direct Charitable Activities and Who Uses Them?,” p. 17).¹⁷

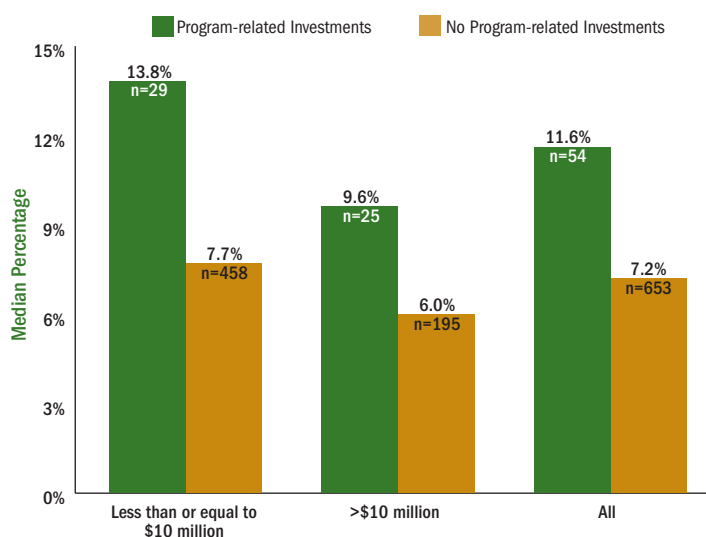
Operating as a Health Conversion Foundation. The 25 foundations in the sample that were created from the sale of hospitals and health organizations (see “What Are Health Conversion Foundations?,” p. 19) had median ratios that were notably higher than for foundations formed by families or individual donors (13 percent versus 7 percent). Smaller foundations—those with giving of less than \$5 million—bore the highest costs for health-conversion status: their median expense ratios were, on average, 17 percent, compared with less than 13 percent for the larger foundations (Figure 3.9). Moreover, two of these smaller health conversion foundations had, on average, median expense ratios higher than 30 percent.

Employing more staff and conducting foundation-administered programs are among the factors that contribute to the higher expense levels associated with health-conversion status. Unlike family foundations (see p. 22), health conversion foundations do not have access to volunteer labor for administering grants and overseeing operations and may require highly specialized staff to carry out their missions. Also, directly conducting programs and providing services in their communities represent a major role for some health conversion foundations. These programs range from operating community health facilities, to running teen pregnancy and violence prevention programs, to holding conferences and providing technical services. The staff-intensive nature of the work of health conversion foundations is evidenced by their staffing patterns. Among the health conversion foundations that gave less than \$5 million (which were the majority), the most typical staff size was four to six, while just 36 percent of these smaller foundations had less than four staff. By contrast, among non-health

conversion foundations of similar size, the most typical staff size was two to three and 63 percent of them had less than four staff.

Program-related Investments (PRIs). For the 54 staffed foundations that regularly draw on their assets to make mission related-loans and investments (see “What Are Program-related Investments?” below), such activities are consistently associated with higher median expense-to-qualifying distribution levels. Economies of scale, however, tend to reduce the spending levels of larger foundations. The cost decreased from nearly

FIGURE 3.10: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Program-related Investments (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

What Are Program-related Investments?

In addition to making grants and operating their own programs, some independent foundations achieve their missions by making below-market-rate loans and investments in the charitable programs of nonprofit organizations and profit-making entities. These asset-driven activities are called program-related investments (also known as PRIs). PRIs represent a tiny component of the total qualifying distributions used to calculate foundation payout. In the 2004 to 2006 dataset, 60 of the 1,026 foundations (6 percent) regularly made program-related investments, based on a two-out-of-three year rule. PRI-making is almost exclusively limited to staffed foundations: nine out of 10 PRI makers in this study employed staff. Also, while some smaller foundations make PRIs, larger endowed foundations are much more likely to do so.

1. For more information on program-related investments, see *Doing Good with Foundation Assets: An Updated Look at Program-related Investments* (Foundation Center, 2010) at foundationcenter.org/gainknowledge/research/pdf/pri_2010.pdf

14 percent for foundations that gave less than \$10 million to 10 percent for larger foundations, which make up the majority of PRI-makers (Figure 3.10). The prevalence of program-related investments among mainly larger, more sophisticated foundations and the higher costs associated with making PRIs reflect the labor-intensive, asset-driven nature of such transactions and the need for staff with special business or financial expertise. Unlike grants, loans must be repaid according to an agreed-upon schedule, often compounded with interest, and repayment may take place over many years. Mission-related investments, whether made in start-up companies or through intermediaries, may also require a long horizon and frequent monitoring. As a result, the interaction required between foundations and their loan and investment recipients is more frequent, more long-term, and often more intensive than interactions between foundations and their grantees.

Maintaining a Web Site. The two-thirds of staffed foundations that maintained a web site (see “Foundation Web Sites” below) had median expense-to-qualifying distribution ratios that were more than twice as high as foundations without a web site (10 percent versus 4 percent). Smaller foundations bore the highest costs. As foundation size increased, the cost for maintaining a web site decreased, from 12 percent for foundations giving less than \$3 million to 7 percent for those giving \$50 million or more (Figure 3.11). While the presence of web sites appears to be associated with higher spending, this factor by itself is unlikely to affect administrative expense patterns. Rather, foundations that invest in developing and maintaining web sites probably have other costs (e.g., higher overall communications costs, higher professional fees, higher technology costs, and/or larger staff) that exert an upward pressure on expenses. The higher costs associated with web site development and maintenance has not deterred foundations from increasing

their presence on the web. Between 2001 to 2003 and 2004 to 2006, the proportion of staffed independent foundations of comparable size with web sites increased.¹⁸

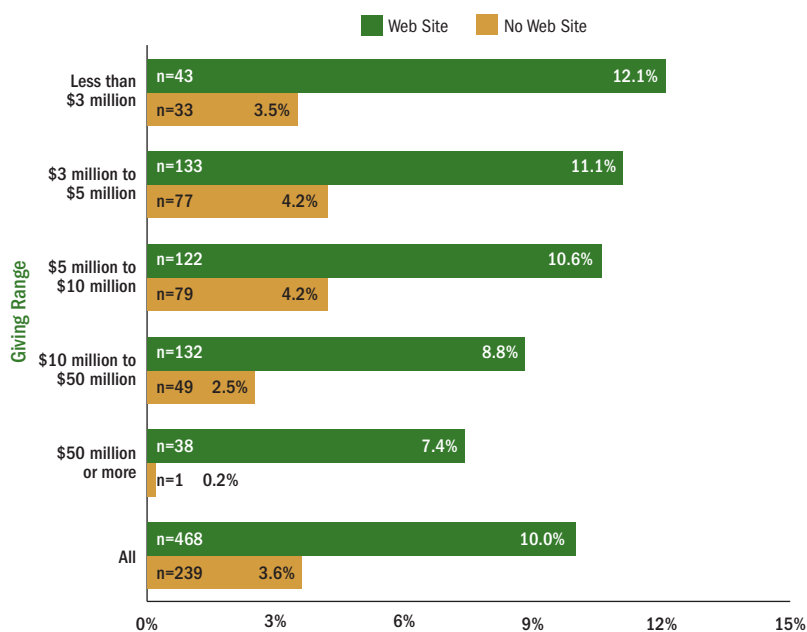
FACTORS THAT MODERATE CHARITABLE EXPENSE RATIOS

Among the many operating characteristics and practices examined in this study, two appear to lower the portion of independent foundations’ charitable administrative expenses to qualify distributions: donor-family involvement and operating as a pass-through foundation.

Foundation Web Sites

Foundation communications efforts aimed at informing the public about their programs often represent a significant investment. For lack of a more comprehensive measure, we included websites in the analysis as a proxy for larger communications and outreach efforts. These efforts may include the release of annual reports, grants lists, brochures, news releases, newsletters, and magazines or other publications, as well as other forms of public outreach, such as social networking. Of the 1,026 larger foundations studied, 500 maintained websites. Foundations employing staff are much more likely to maintain websites. Sixty-six percent of the 707 staffed foundations in the study had websites (468), compared with just 10 percent of the 319 unstaffed foundations (32). Moreover, the very largest staffed foundations were the most likely to develop and maintain websites. Thirty-eight of the 39 staffed foundations (97 percent) that gave, on average, at least \$50 million from 2004 to 2006 maintained a website, compared with 62 percent of the foundations that gave less than \$5 million.

FIGURE 3.11: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Web Sites (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004–2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

Donor-Family Involvement

- Family foundations have lower median expenses than non-family foundations
- Family involvement tends to lower the expense levels of the largest foundations the most

Donor or family involvement in foundation operations notably reduces the charitable administrative expense-to-qualifying distribution ratio for staffed foundations (see “What Are Family Foundations?,” and Figure 3.12). Throughout this study period, family foundations consistently reported median expense ratios of 6 percent, compared with 9 to 10 percent for non-family foundations. The importance of this factor is magnified by its prevalence: family foundations make up the majority of sampled staffed foundations.

While family involvement reduces median expense levels for all sizes of staffed foundations, the impact of this factor is strongest for the very largest foundations. Among the 39 foundations that gave, on average, at least \$50 million from 2004 to 2006, the one-third share that reported family involvement in their operations had median expense levels that were only half as high as those in which family members had limited or no involvement (less than 5 percent versus 10 percent, respectively).

Expense patterns of family and non-family foundations in this study period were largely consistent with expense patterns of comparable-size independent foundations in the 2001 to 2003 study. In both periods, family involvement had the strongest effect on the largest foundations, and the median expense ratios of these very large family foundations were one-half as high as those of the largest non-family foundations.¹⁹

The lower median expense-to-qualifying distribution ratios for family foundations compared to non-family foundations suggests that family members hold staff-

related costs down by providing no- or low-cost labor for administering grants and other programs. Evidence of such support is seen in lower typical numbers of staff in family foundations compared with non-family foundations of similar giving size.²⁰ In addition to the work they perform, family members may also lower expenses by contributing office space, administrative services, such as legal and accounting, and investment services.

Pass-through Status

- Foundations that do not maintain an endowment (pass-throughs) have lower expense ratios than endowed foundations
- Pass-through foundations with donor-family involvement report the lowest median expense levels

Similar to donor-family involvement, pass-through status tends to lower foundation expense levels, though its effect is more limited since relatively few larger independent foundations operate without an endowment (see “What Are Pass-through Foundations?,” p. 23). The 52 staffed foundations in the study that qualify as pass-throughs reported a 4 percent median expense ratio compared to a nearly 8 percent ratio for endowed foundations (Figure 3.13). The effect is consistent: between 2004 and 2006, yearly expense levels remained between 3 and 4 percent for pass-through foundations and at 8 percent for endowed foundations. The effect of pass-through status on foundation expense ratios in this study period was also consistent with the findings from the 2001 to 2003 study for foundations of comparable size.²¹

Like donor-family involvement, the effect of pass-through status was the strongest among the biggest givers. Staffed foundations giving, on average, at least \$10 million had median expense-to-qualifying distribution ratios of less than 2 percent if they operated as pass-throughs, compared with around 7 percent if they were endowed. As

foundations decreased in size, the effect of this factor was less consistent.

The higher expense levels associated with endowed foundations compared with pass-throughs suggest that these foundations employ larger, more specialized staffs. Since pass-through foundations have no permanent corpus,

What Are Family Foundations?

Family foundations are a subset of independent foundations that report or demonstrate donor or donor-family involvement on the board and in the foundations’ operations.¹ The Foundation Center asks foundations to self-identify as family foundations. In the absence of survey responses, it uses objective criteria such as whether the foundation has “Family” or “Families” in its name, a living donor whose surname matches the foundation’s name, or at least two trustee surnames that match a living or deceased donor’s surname. Of the 1,026 larger independent foundations studied, 605 (59 percent) were family foundations. Foundations that do not employ staff are more likely to have family involvement: 69 percent of unstaffed foundations were “family” compared with 54 percent of staffed foundations. Family foundations outnumber non-family foundations across nearly all sizes of staffed foundations in this study. However, as foundations become exceptionally large and more professionalized, family involvement tends to decrease: of the 39 foundations with giving of at least \$50 million, just one-third demonstrated family involvement.

1. For more information, see *Key Facts on Family Foundations* (New York: Foundation Center: 2009) at foundationcenter.org/gainknowledge/research/pdf/keyfacts_fam_2009.pdf

they may not invest heavily in staff and other long-term infrastructure. A review of the study's staffing data confirms these assumptions. All of the sampled foundations that employed more than 20 staff were endowed. Conversely, the largest pass-through foundations employed relatively few staff. For example, the median staff sizes were three for foundations giving \$10-\$50 million and four for those giving at least \$50 million.

Pass-through foundations have a few other general characteristics that are associated with lower administrative expense levels. First, pass-through foundations, perhaps because of their lower staffing levels, were far less likely to engage in direct charitable activities.²² Second, a larger proportion of pass-through than endowed foundations demonstrated family involvement (67 percent versus 53 percent). In fact, the 35 foundations that operated as pass-throughs and had donor-family

involvement reported the lowest median expense ratio of any group of staffed foundations studied: they spent, on average, just 3 percent of their qualifying distributions for program-related expenses. In contrast, the typical non-family endowed foundation spent, on average, 9 percent.

SUMMARY

Employing staff is the single most important factor affecting the charitable administrative expenses of larger independent foundations. Among staffed foundations, employing more staff, engaging in international grantmaking, directly conducting charitable programs and activities, making grants to individuals, operating as a health conversion foundation, making loans and other program-related investments, and maintaining a web site (a possible indicator of a larger communications effort) further raise expenses, but in most cases the impact tends to be greater for

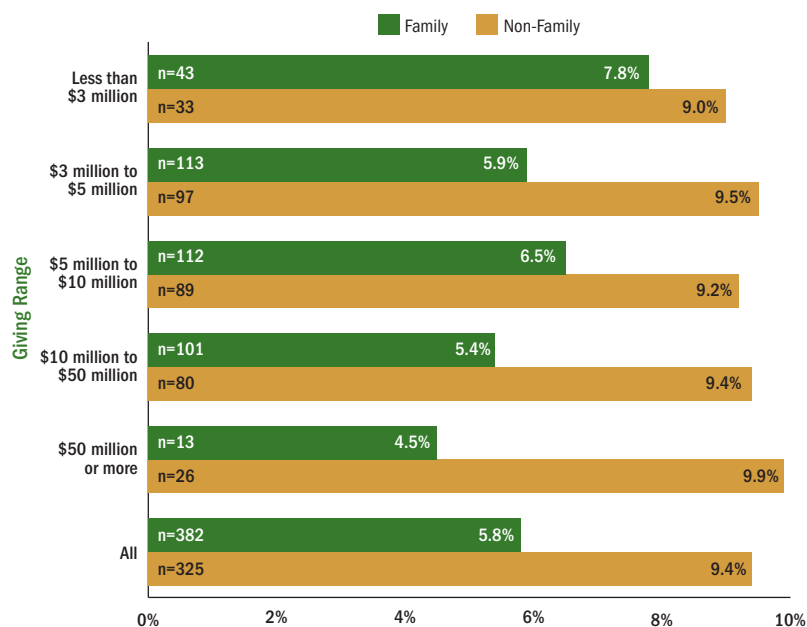
smaller than for larger givers. By contrast, donor-family involvement and operating as a pass-through foundation tend to lower charitable expenditure ratios.

While these findings are based on typical ratios of charitable administrative expenses to qualifying distributions for an averaged year (2004 to 2006), they are also consistent with findings throughout the period. In each study year, staffed foundations had consistently higher median expense levels than unstaffed foundations and particular practices or activities were consistently associated with either higher or lower expense levels.

What Are Pass-through Foundations?

Most foundations pay for grants and other expenses from earnings on their endowments. Some foundations, however, operate as pass-throughs—that is, grants and expenses are funded through periodic gifts to the foundations from the donor(s) or family-owned businesses. Foundations were considered pass-throughs if their 2004 to 2006 giving represented, on average, more than 25 percent of the value of their assets, or if they held assets of less than \$100,000. Of the 1,026 foundations studied, 128 (12 percent) qualified as having pass-through status. Among the 707 staffed foundations, only 52 (7 percent) were pass-throughs. Even though they are not endowed, pass-through foundations include some larger givers: 18 pass-throughs (35 percent) gave, on average, in excess of \$10 million, including two that gave in excess of \$50 million. Pass-through foundations are more likely to have family involvement: 67 percent of staffed pass-through foundations were family foundations, compared with 53 percent of endowed foundations.

FIGURE 3.12: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Family versus Non-Family (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

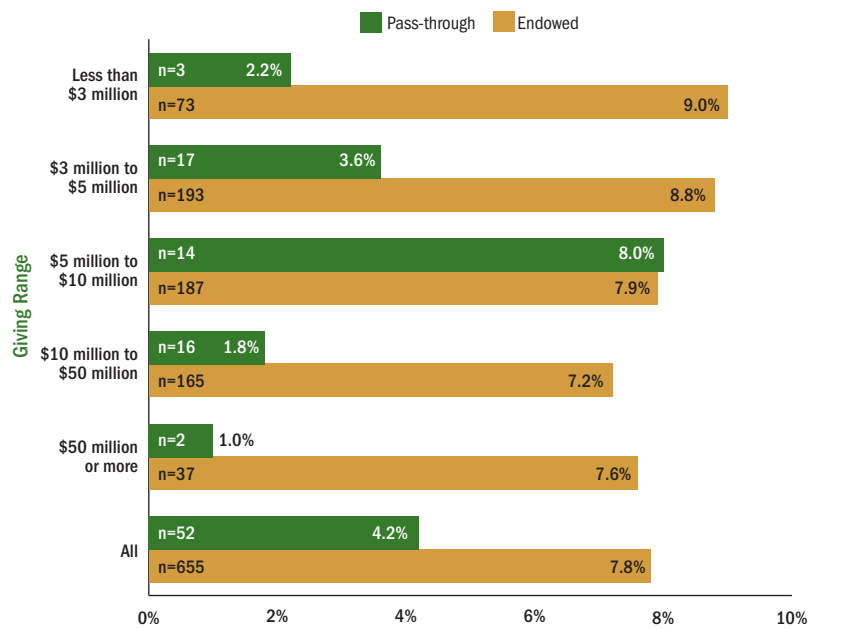
Of equal importance, these findings confirm similar patterns that were found for 2001 to 2003 with respect to independent foundations of comparable size. With the exception of health conversion status, which is examined for the first time in this report, all of the characteristics cited as influential in the earlier study and the effect they had on the charitable administrative expense-to-qualifying distributions ratio of large independent foundations were the same.

Compared with the 2001 to 2003 analysis, the median ratios reported for each characteristic for foundations of comparable giving size were sometimes a little lower or higher in the 2004 to 2006 analysis. But these small changes do not alter the major findings of this study: differences in the operations and activities of larger independent foundations strongly affect spending patterns. Staffing, geographic scope, donor-family involvement, direct charitable activities, and whether a foundation finances its grants from an endowment—as well as a handful of less significant characteristics—differentiate independent foundations and influence their spending patterns over time.

Endnotes

1. Foundations were included in this study on the basis of their grants paid amount; the threshold for giving in 2004, 2005, and 2006 was \$2.2 million. Giving is used as a measure of foundation size because the study focuses on the relationship of expenses to total qualifying distributions, which includes giving. The largest givers include endowed foundations but also “Pass-through” foundations that do not maintain substantial endowments. If foundations were ranked by assets, these large givers would be excluded from the study. For more information, see Appendix A.
2. See Elizabeth T. Boris, Loren Renz, et al., *What Drives Foundation Expenses and Compensation? Results of a Three-Year Study* (Washington, D.C.: The Urban Institute, Foundation Center, and Philanthropic Research, Inc., 2008). The original study examined more than 8,800 independent foundations of which three-fourths gave, on average, less than \$1 million between 2001 and 2003. By contrast, the current study examines 1,026 independent foundations that gave, on average, at least \$2.2 million between 2004 and 2006. Due to differences in the studies’ samples, comparisons are drawn only for foundations of similar giving size.
3. Most foundations in this study that reported no charitable administrative expenses did not employ staff. However, some foundations that reported having paid staff in Foundation Center surveys also did not report any charitable administrative expenses (including compensation) on Form 990-PF. Presumably, compensation and/or consulting fees paid by these foundation to staff is investment related and is therefore not included as part of the qualifying distributions that count toward the 5 percent payout requirement.
4. For unstaffed foundations, which reported only nominal expenses, the median expense ratio remained about the same from 2004 to 2006.
5. It bears noting that due to this study’s focus on large independent foundations and its much smaller sample size, differences in the median expense levels of the smallest and largest independent foundations are much less than in the study of 2001 to 2003 expense patterns. While both datasets include the very largest independent foundations, this study’s giving threshold was \$2.2 million, compared with just \$270,000 for the earlier study.
6. Giving size categories of mid-sized and large foundations are the same in both studies: \$5 million to \$10 million, \$10 million to \$50 million, and greater than \$50 million. Due to differences in the sample sizes of the studies, the size categories used to compare smaller foundations are \$3 million to \$5 million and under \$3 million for 2004 to 2006 and \$1 million to \$5 million for 2001 to 2003.
7. Among the staffed independent foundations included in the earlier study of administrative expenses, the proportion that reported expense-to-qualifying distribution levels of 10 percent or less declined from 62 percent in 2001 to 55 percent in 2003. According to the study, “As asset and giving levels fall after 2001 and as expense levels remain the same or increase, many foundations with expense ratios under 10 percent in 2001 move into a higher distribution group in 2002 or 2003” (page 26). While we cannot precisely compare year-to-year trends for 2004 to 2006 with 2001 to 2003 due to differences in foundation sample size, it

FIGURE 3.13: Charitable Administrative Expenses as a Share of Qualifying Distributions, 2004–2006: Endowed versus Pass-through (Staffed Independent Foundations)



Source: The Foundation Center, 2011; The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top independent 1,500 foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year. Of the 1,026 foundations sampled, 707 on average reported having paid staff.

- is nonetheless useful to compare the *direction* of expense patterns in periods of economic (and stock market) growth with the trends in years of economic decline.
8. By comparison, the proportion of the 2,350 independent staffed foundations in the 2001 to 2003 study that reported a ratio of 30 percent or more increased, from 6 percent in 2001 to nearly 10 percent in 2003. As noted above, while the samples are not comparable, inferences may be drawn regarding the overall trends.
 9. Of the 18 foundations that reported 50 or more staff in 2004, four reported fewer staff in 2006, eight reported the same number, and six reported more staff. In addition, three newly large foundations reported more than 50 staff in 2006.
 10. Of the nine foundations reporting 100 or more staff in 2004, two reported fewer staff in 2006, five reported the same number, and two reported more staff. In addition, in 2006 one newly large foundation reported more than 100 staff.
 11. For example, between 2001 and 2003, the median expense ratio of independent foundations that gave, on average, \$1 to \$5 million was 15 percent for international givers compared with 7 percent for local givers. Similarly, among foundations that gave at least \$50 million, the median expense ratio was 8 percent for international givers and 4 percent for local givers. See *What Drives Foundation Expenses and Compensation?*, (2008) p. 29, Table 3.2.
 12. See Rob Buchanan, "Federal Anti-Terrorism Measures: How Foundations and Corporate Grantmakers Are Responding," *International Dateline: A Publication of the Council on Foundations*, Issue 72 (First Quarter 2005), pp. 8–12.
 13. Ten of the 16 independent foundations (63 percent) that gave, on average, at least \$1 million between 2001 and 2003 and that reported expense-to-qualifying distribution ratios of at least 30 percent in all years engaged regularly in direct charitable activities. See *What Drives Foundation Expenses and Compensation?*, (2008) p. 27, Box 3.3.
 14. These similarities in findings across study periods pertain to three factors: grants to individuals, program-related investments, and the maintenance of web sites. No such comparisons can be drawn for health conversion status since this factor was not examined in the 2001 to 2003 study.
 15. The largest grants-to-individuals foundation studied made grants averaging \$29 million. None of the very largest foundations—those giving \$50 million or more—qualified as grants-to-individuals foundations.
 16. For example, the top three grants-to-individuals foundations ranked by staff size employed between 24 and 42 staff, yet their giving averaged just \$8 million to \$11 million. By comparison, the typical staff size for foundations in the same giving range that gave solely to organizations was five. Not surprisingly, these grants-to-individuals foundations had above-average expense ratios ranging from 24 to 36 percent.
 17. Since foundations may report the costs of managing grants-to-individuals (GTI) programs as direct charitable activities, there was likely overlap between these two factors and expense ratios. For example, two of the three GTI foundations with expense-to-qualifying distribution ratios above 30 percent reported direct charitable activities as did two of the three GTI foundations with ratios of 20 to 30 percent. Overall, however, just six of the 18 programs were reported as direct charitable activities.
 18. In the 2001 to 2003 study, web sites were reported by 52 percent of staffed foundations giving \$5 million to \$10 million, 67 percent of those giving \$10 to \$50 million, and 84 percent of those giving at least \$50 million. By contrast, the share of foundations in the 2004–2006 dataset with websites increased to 61 percent of those giving \$5 million to \$10 million, 73 percent of those giving \$10 to \$50 million, and 97 percent of those giving \$50 million or more.
 19. In the 2001 to 2003 study, staffed family foundations that gave, on average, at least \$50 million had median charitable expense-to-qualifying distribution ratios of 4 percent compared with 8 percent for non-family foundations. Family foundations in all other comparable-size giving groups had median expense ratios of 7 percent, while non-family foundations had expense ratios ranging from 9 to 11 percent.
 20. In the 2004 to 2006 dataset, among foundations that gave, on average, \$5 million to \$10 million, the most typical staff size categories (by order of percentage) were two to three, four to six, and one for family foundations compared with two to three, four to six, and seven to 14 for non-family foundations. Eighty-six percent of family foundations of this size had fewer than seven staff, compared to 69 percent of non-family foundations. Among foundations that give \$50 million or more, the most typical staff sizes were four to six, seven to 14, and two to three for family foundations, compared to 15 to 50, seven to 14, and two to three for non-family foundations. Eighty-five percent of family foundations in this giving size category had fewer than 15 staff, compared with 57 percent of non-family foundations.
 21. For example, pass-through foundations that gave, on average, at least \$10 million, between 2001 and 2003 had median ratios of 3 percent compared with 8 percent for endowed foundations.
 22. Just 10 percent of staffed pass-through foundations reported engaging in direct charitable activities, compared with 22 percent of endowed foundations.

4

Conclusion

This study's essential finding is that identifiable factors consistently and predictably influence program-related administrative expense patterns of the largest independent foundations and that these effects persist over time even as the economy—and with it the health of foundation finances—rises and falls. These results confirm the basic findings of an earlier study of foundation expenses, while extending the research time frame for an important and highly scrutinized segment of foundations. For the first time, the effect of differences in large foundations' operating characteristics on their spending patterns has been documented over two consecutive but distinct financial periods, with strikingly similar results. Such consistency should give foundation managers, policymakers, and the public greater confidence to compare one foundation's expenditure patterns to those of other foundations with similar characteristics.

Documenting foundations' program-related administrative expenditures sheds new light on how large independent foundations work and achieve their missions. Detailed analyses of information reported on Form 990-PF and in annual surveys reveal that even among the very largest grantmakers, there are vast differences in their infrastructure and operations and in their costs. While many of the foundations studied—especially those with large endowments and staff and complex programs—have significant expenses, others do not. In fact, close to one out of three of the top independent foundations (by giving) report no program-related compensation and nearly one out of 10 of these grantmakers report no program-related expenses at all. Presumably, these foundations rely on their donors, family

members, and unpaid board members to administer programs and, in some cases, to absorb other expenses.

Hiring staff, and employing more staff, notably increases the program-related administrative expense portion of distributions that count toward payout for large independent foundations. No other factor affects as many large independent foundations—more than two out of three foundations in this study are staffed—and with such clear and predictable results. This report does not examine the value added by staff who identify needs, screen grant proposals, monitor resources, or directly conduct programs. But it does compare the typical staff size of comparable-size foundations with and without certain activities or practices. Clearly, undertaking more complex activities increases staffing levels and tends to raise costs.

Besides staffing, engaging in international grantmaking, directly operating programs, and making grants to individuals are practices consistently associated with high charitable administrative expense levels relative to qualifying distributions. These activities may have higher fixed costs, or require more employees, or impose more regulatory burdens (e.g., rules for making grants overseas). Regardless, these activities are associated with measurably higher expense-to-qualifying distribution ratios for the largest independent foundations and the effects are the same over time, based on studies of 2004–2006 and 2001–2003. Also, in both periods, smaller foundations that take on such staff- and resource-intensive programs as international giving or operating an agency or facility often end up with higher expense ratios than

the largest foundations incur. In contrast, foundation size has no moderating effect on making grants to individuals, perhaps because few large foundations engage in this practice. Lesser characteristics that differentiate the largest independent foundations and that further raise expense levels include making program-related investments and operating a web site (a possible indicator of a larger communications effort).

Operating as a “health conversion” or “new health” foundation is a new characteristic associated with higher expense levels for large independent foundations. This study considered for the first time ever the effect on expense levels of whether a foundation was formed from the sale of a hospital or health organization. While this factor applies to a relatively small number of independent foundations, it raises cost levels considerably, especially for smaller foundations. Employing more staff and conducting foundation-administered programs are among the factors that contribute to the higher expense levels associated with health-conversion status.

Foundations that consistently have very high charitable administrative expense-to-qualifying distribution levels often report a mix of grantmaking and direct charitable activities. While making grants is the primary function of most foundations, many of the largest independent foundations undertake other charitable activities too. These foundations conduct health policy and scientific research, manage service agencies, operate conference centers and museums, run scholarship programs, provide technical assistance to nonprofits, host web sites that benefit special populations, and so forth. In this

rapidly evolving field, many new hybrids combine elements of grantmaking with features of operating foundations. In fact, for some foundations, direct charitable activities expenses exceed giving. As foundations increasingly take on non-grantmaking charitable activities, it is critical that studies of finances account for these program costs.

Donor-family involvement and operating as a non-endowed—or “pass-through”—foundation usually lower charitable administrative expense ratios in staffed foundations. Most likely, family members help hold down staff-related costs by providing program administration and other help. Pass-through foundations, which have no permanent corpus, tend to employ fewer staff than endowed foundations of comparable giving size. A large majority of pass-through foundations also demonstrate family involvement, which lowers expense levels.

Foundation oversight and regulation would benefit from deeper understanding of the diversity of foundations’ missions and activities.

Foundations’ programmatic and strategic choices have impacts on expenses. Assessing data over time reveals the typical expense patterns and the extent of outliers. One-size-fits-all limitations on charitable administrative expense levels or target ratios of expenses-to-qualifying distributions would likely have unintended consequences for foundations and the people they serve.

The research summarized here does not address what proportion of qualifying distributions charitable administrative expenses should be. Rather, the intent is to help foundation managers, policymakers, and the public focus on the relevant factors and facts when comparing the costs of various types of foundations.

IRS Form 990-PF—this study’s main data source—has not kept up with the changing activities and costs incurred by private foundations and needs to be improved. Form 990-PF does not document relatively new categories of foundation expenses, such as communications, technology, and evaluation, nor does it adequately capture foundations’ growing involvement in direct charitable activities. Until those

types of activities are better reported, the form will not properly inform the public about grant-and program-related expenses, and it will overestimate charitable administrative costs as a proportion of qualifying distributions for some foundations. Also, donated labor and in-kind gifts of space, equipment, and services are not captured on the IRS form. For this reason, the true costs of running many family foundations cannot be assessed.

Despite this study’s smaller sample size and the shortcomings of Form 990-PF, this report deepens understanding of the spending patterns of an important segment of foundations and expands the research horizon by three years.

To foster more informed management and oversight of foundations, the field needs rigorous and detailed analysis of foundation finances that is timely and updated regularly, and along with it, benchmarking of foundation practices. By creating a new template for research that covers more than 1,000 of the largest independent foundations but that is sustainable in scale, this report takes a big step toward that goal.

Appendix A Study Methodology

This report uses data from the Foundation Center's Foundation Finances database. This statistical data source brings together in one place extensive financial data reported by the largest private foundations on Form 990-PF, filed annually with the Internal Revenue Service, and supplemental fiscal, programmatic and operating characteristics data reported to the Foundation Center in its annual surveys and via the *Foundation Directory Online Updater*.

The basic methodology used in this study to examine the effect of foundation operating characteristics on charitable administrative expenses was developed earlier by the research partners of the Foundation Expenses and Compensation Project.¹ The Foundation Center acknowledges the many contributions to the methodology made by the staff of the Urban Institute's Center on Nonprofits and Philanthropy and also their efforts to document study methods in the project's reports.

STUDY DATA SETS

This report is based on summary data from two data sets:

Individual-Year (2004, 2005, 2006)

Data Set Includes expense and other key financial data for 1,026 of the approximately 1,500 largest independent foundations in 2004, 2005, and 2006 by giving amount (based on a threshold of \$2.2 million per year), for which IRS Form 990-PF data were publicly available for each year; and supplemented by fiscal, programmatic, and operating characteristics data for each year derived from surveys conducted by the

Foundation Center. The individual-level data set was used for analyses of year-to-year differences in Chapters 1, 2, and 3 and for individual-year Benchmarking tables in Appendix C.

Three-Year Average (2004 to 2006)

Data Set: This data set includes the same 1,026 large independent foundations that are in the individual-year set above. This data set averages key financial values, including expenses, for 2004, 2005, and 2006; and assigns an "average" value for programmatic and operating characteristics. The purpose of tracking the same foundations across three years is to examine the impact of certain foundation characteristics and practices on expenses. A three-year average evens out anomalies in any single year and provides a more authoritative picture of expenses over time.

Averaging methods differ for financial versus programmatic and operating characteristics values. All key numerical values—for example, assets, giving, charitable administrative expense, qualifying distributions, etc.—were summed for the years for which there were data, and an average was drawn by dividing by the number of years. To assign values for non-financial attributes, such as whether a foundation employs staff or geographic scope of giving, coding was compared for 2004, 2005, and 2006. Overall, there were very few changes from year to year. Where changes did occur, rules were applied to ensure that the attributes and characteristics were accurately represented. The rule most commonly applied considers a foundation in the averaged data set as having a given characteristic if the characteristic was found in two of the three study years.

STUDY VARIABLES AND THEIR SOURCES

To examine the 2004-2006 expenses of the largest independent foundations, this study uses the same *foundation-level* variables that were used in The Foundation Expenses and Compensation Project and specifically, in that project's groundbreaking study of 2001-2003 expense patterns.² In addition to fiscal data that are regularly collected on foundations by the Foundation Center (see below), the study variables include key Form 990-PF financial fields that were identified by the Foundation Expenses and Compensation Project's researchers and advisors, such as components of charitable administrative expenses and qualifying distributions, and that needed to be digitized. Starting with fiscal year 2004 data, the Foundation Center has digitized these additional financial variables for the 1,500 largest independent foundations in each year, ranked by giving.

In this study's file of more than 1,026 large independent foundations, fiscal data fields derived from Form 990-PF are complete. (For definitions of key financial variables used in this report, see Appendix B.)

SURVEY RESEARCH DATA

The Foundation Center annually surveys the approximately 20,000 largest grantmaking foundations (ranked by giving) to update fiscal, operating, and programmatic information included in its online and print reference and research products. The response rate is approximately 30 percent for foundations overall and over 66 percent for the top

1,000 foundations. For non-response foundations, information is compiled from foundation annual reports, grants lists, web sites, and Forms 990-PF. Fiscal information (assets, gifts received, total giving, total expenses, program-related investments, direct charitable activities, qualifying distributions) obtained via survey is later compared and reconciled with data reported in Form 990-PF.

For the 1,026 foundations in the study file, programmatic and operating characteristics data fields that depend solely on survey responses or special research—e.g., staffed or unstaffed, number of staff, family foundation or health conversion status, geographic scope of giving, and grants to individuals—are fairly complete.

OPERATING CHARACTERISTICS VARIABLES

Definitions of programmatic and operating characteristics derived mainly from survey research are provided in Appendix B. In addition, a few grantmaker variables require an explanation of the methodology that was developed specifically for this study.

Foundations with Staff. To measure the effect of having paid staff on foundation charitable administrative expenses, foundations with paid staff (as opposed to unpaid staff or paid board members or trustees only) are separated from foundations with no paid staff. To identify staffed foundations, a two-step

process was used. First, if the Foundation Center survey (circa 2004, 2005, or 2006) indicated that the foundation had one or more paid staff members, then the foundation was flagged as staffed. In the absence of survey data, Form 990-PF was examined. If Part I, line 14, column a (other employees benefits) was greater than zero, or if Part I, line 15, column a (pension plans and employee benefits), was greater than zero and Part I, line 13, column a (compensation of officers, directors, and trustees) was zero or blank, then the foundations was coded as staffed. Because not all foundations responded to the Foundation Center's survey and examining Form 990-PF was not conclusive for every foundation, some staffed foundations may not have been identified.

Staffed Foundations and Number of Staff. To assess the relative cost of having more or less staff, independent foundations of the same giving level were grouped according to staff size. For staffed foundations that responded to the Foundation Center's survey, which represented the vast majority in the data set, staff size was taken directly from the survey and staff size was averaged over the number of years the foundation reported number of staff. For foundations identified as staffed that did not report number of staff and for those few foundations that reported via survey having "shared staff,"³ staffing information was researched in annual reports, web sites, and from Form 990-PF. Despite these efforts, 29 of the foundations identified as staffed in the dataset are missing a staff number.

Pass-through Foundations. Some independent foundations that rank among the largest by giving amount—mainly younger foundations with living donors—retain few or no assets but instead fund their grants from yearly or periodic gifts from their donors. For these foundations, the amount of giving or qualifying distributions paid in the latest year may exceed year-end assets, because the foundation simply does not maintain a significant endowment. To assess the impact of maintaining or not maintaining an endowment on levels of charitable operating and administrative expenses, foundations whose total giving, on average, exceeded 25 percent of the value of their average year-end assets, or whose assets were less than \$100,000, were identified as "pass-through" foundations.

Endnotes

1. A partnership of the Foundation Center, Urban Institute's Center on Nonprofits and Philanthropy, and GuideStar. The multi-year project produced reports on foundation expenses and compensation, culminating in *What Drives Foundation Expenses and Compensation: Results of a Three-Year Study* (2008).
2. The Foundation Expenses and Compensation Project also examined 2001 to 2003 individual-level compensation data on officers, directors, and institutional trustees reported on Form 990-PF and digitized by GuideStar. Individual-level compensation is not covered in this study.
3. To avoid over counting of "shared staff" reported by more than one foundation, the reports and web sites of these foundations were examined for staffing information and a staff number was assigned in proportion to the staff salaries or staff-related consulting fees reported by individual foundations.

Appendix B

Definitions of Study Variables

KEY FINANCIAL VARIABLES FROM IRS FORM 990-PF

The following financial measures are examined in this report. For information on how the study data set “averages” financial values for 2004, 2005, and 2006 (see Appendix A).

Assets. The fair market value of cash, stock, bonds, real estate, and other holdings of a foundation at the end of its fiscal year. The value of year-end assets is used in Chapter 2 as a proxy for foundation size. For private foundations, this figure comes from Form 990-PF, Part II, line 16, column c. (See also “Net Assets” below.)

Charitable Administrative Expenses. The total amount of grant- and program-related operating and administrative expenses incurred in carrying out a foundation’s charitable mission, including salaries and benefits, compensation of officers and trustees, professional fees, accounting and legal fees, rent, taxes, and other costs. These expenses are part of the “qualifying distributions” that count toward a foundation’s payout requirement (see below). For private foundations, the total figure is derived from Form 990-PF, Part I, line 24, column d. (Individual expense items that make up the total are taken from Part I, lines 13-23, column d.) Charitable administrative costs exclude investment-related expenses.

Charitable Administrative Expenses as a Percentage of Qualifying Distributions. After averaging charitable administrative expenses and qualifying distributions for each foundation, a foundation’s averaged charitable expenses-to-qualifying distributions ratio is represented by its averaged charitable administrative expenses divided by its averaged qualifying distributions.

Compensation. The total amount paid in salaries, wages, pension plans, and other employee benefits reported as part of a foundation’s charitable (program-related) operating and administrative expenses. For private foundations, this figure is taken from Form 990-PF, Part I, sum of lines 13-15, column d.

Qualifying Distributions. All disbursements made by private foundations that count toward their payout requirement, i.e., the minimum amount a private foundation is required to expend for charitable purposes. In general, a private foundation must pay out annually approximately 5 percent of the average monthly value of its assets. For most foundations, the largest component of qualifying distributions by far is total giving, followed by charitable administrative expenses. Program-related investments, set asides, and amounts paid to acquire assets used for charitable purposes also count toward payout but together they represent a tiny share of qualifying distributions. Private foundations report their qualifying distributions in Form 990-PF, Part XII, line 4.

Net Assets. The average market value in any fiscal year of a foundation’s “noncharitable-use assets,” which include investment assets such as stocks and bonds. For private foundations, this figure comes from Form 990-PF, Part X, line 5. IRS rules require private foundations to pay out in grants and other “qualifying distributions” at least 5 percent of their net assets by the end of the following year. In Chapter 1 of this report, changes in net assets between 2004 and 2006 are compared with changes in year-end assets and other financial measures. (See also “Assets” above.)

Total Giving.¹ The total amount paid by foundations in the form of grants and other contributions. Total giving was the measure used to identify the 1,500 largest independent foundations, from which the study sample was drawn, and it is used as a proxy for foundation size in Chapter 3. For private foundations, this figure is taken from Form 990-PF, Part I, line 25, column d.

FOUNDATION OPERATING CHARACTERISTICS FROM THE FOUNDATION CENTER’S RESEARCH DATABASE

The following grantmaker characteristics examined in this report derive from survey research conducted by the Foundation Center or from an examination of foundations’ annual reports, grants lists, web sites, or Form 990-PF. The Center codes a foundation as having a particular programmatic or operating characteristic based on the foundation’s self-reporting or by applying certain objective criteria (identified below). For information on how the study data set assigns an “average” value for these characteristics for 2004, 2005, and 2006 (see Appendix A).

Endowed Foundations. Foundations whose bequests or gifts from donors are intended to be kept permanently and invested to provide income for continued support of the foundation and for annual funding of grants. Foundations in this study are considered endowed if their giving represents less than 25 percent of the value of the market value of their year-end assets. Nearly nine-tenths of the large independent foundations in this study are endowed.

Establishment Year. The year that the foundation was created or, for non-response foundations, the initial year that it filed a tax return.

Family Foundations. A subset of independent foundations known to have measurable donor or donor-family involvement either because they self-identify as family foundations in Foundation Center surveys or, in the absence of survey responses, they meet certain objective criteria: the foundation has “Family” in the name, a living donor’s surname matches the foundation’s name, or at least two trustee surnames match a living or deceased donor’s name.

Formal Report Published. Identifies whether the foundation publishes an annual, biennial, or periodic report on its activities, in addition to filing Form 990-PF.

Geographic Scope of Giving. Depending on the scope of their grantmaking, foundations are coded as local (either giving within their local community, only in their state, or within a few designated states), national, national/international, or international. In the absence of self-reporting, scope of giving determinations are based on a review of a foundation’s grants list over several years.

Grants to Individuals. Total giving amount paid directly to individuals, usually in the form of scholarships, fellowships, awards, or prizes. Making grants to individuals is governed by special legal requirements: to ensure objectivity in the selection process, Federal tax law requires that a foundation planning to make grants to individuals obtain advance approval of its selection criteria and procedures from the Internal Revenue Service. In the absence of self-reporting, the Foundation Center identifies grants made to individuals from foundations’ grants lists.

Health Conversion Foundations.

A subset of independent foundations, sometimes referred to as “new health foundations,” whose funds derive from the sale of a not-for-profit hospital or health organization to a for-profit enterprise. Since federal law requires that proceeds from the sale of assets of tax-exempt entities be directed towards charitable purposes, one result of these conversions has been the creation of a number of new foundations, both public and private. Only private health conversion foundations are included in this study.

Independent Foundations. Private foundations usually established by an individual or a family through gifts or bequests (often called “family foundations”) or formed from the sale of a not-for-profit hospital or health organization to a for-profit enterprise (known as “health conversion” or “new health” foundations). Independent foundations comprise nearly nine-tenths of the private foundations in the Foundation Center’s database. Because of their narrow base of support, independent foundations are subject to the federal laws and regulations intended to assure that they serve the public good. These rules include, among other things, a minimum annual distribution (payout) requirement, an excise tax on investment income, limits on the proportion of a for-profit enterprise they may own, and restrictions on grantmaking for certain kinds of recipients and activities.

Number of Grants. Separate totals are provided for numbers of grants to organizations and to individuals. The Foundation Center identifies the number of grants made by a foundation from a review of its grants list.

Number of Staff. Number of full-time or part-time staff, classified as either “professional” or “support,” or overall number of “shared” staff.

Pass-through Foundations. Foundations whose grants and operating expenses are funded through periodic gifts to the foundation from the donor(s) or family-owned businesses and not from earnings on an endowment. Foundations are considered “pass-throughs” if their giving represents more than 25 percent of the market value of their year-end assets, or if they hold assets of less than \$100,000.

Program Expenses (Direct Charitable Activities). Expenditures for foundation-administered programs and other direct (non-grantmaking) charitable activities reported by foundations, including technical assistance to grantees, maintenance of facilities for charitable purposes, operation of nonprofit resource or conference centers, research, educational conferences, and certain fellowship, scholarship, and awards programs. In the absence of self-reporting, the Foundation Center identifies direct charitable activities expenditures from Form 990-PF, Part IX-A.

Program-related Investments/Loans (PRIs). The amount reported by foundations for below-market-rate loans and investments in the charitable programs of nonprofit organizations and profit-making entities. Unlike grants, these loans and investments are intended to be repaid. In the absence of self-reporting, the Foundation Center identifies program-related investment expenditures from Form 990-PF, Part IX-B.

Web Site. Identifies that a foundation has its own URL or maintains a site hosted by the Foundation Center.

Endnote

1. Foundations were selected on the basis of their giving amount since the study focuses on the relationship of charitable administrative expenses to qualifying distributions, which includes giving. Also, the largest givers include endowed foundations but also “pass-through” foundations, which do not maintain endowments. If foundations were ranked by assets, these large givers would be excluded from the study.

Appendix C Benchmarking Tables

The following benchmarking tables provide comparative information for larger independent foundations on charitable administrative expenses as a percentage of qualifying distributions and selected components of expenses in finer detail than reported in the study graphs. These tables permit users to find

means, medians, and ranges of charitable administrative expenses and mean and median amounts of expense components for various sizes of independent foundations. These tables should be used with caution as they do not cover all the factors that might influence expenditures, nor do they account fully for the

interaction of multiple factors. They also report existing practices, not necessarily best practices. The tables should be consulted as one component of an overall analysis that those involved in governing, managing, or overseeing foundations might undertake.

TABLE C.1: Charitable Administrative Expenses as a Share of Qualifying Distributions for the Largest Independent Foundations, 2004–2006

	Staffed Foundations ^a				Unstaffed Foundations				All Independent Foundations			
	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %
Giving Level^b												
Less than \$3 million	76	9.2	8.5	0.0-30.9	64	1.8	0.6	0.0-10.9	140	5.8	3.0	0.0-30.9
\$3 million to \$5 million	210	10.0	8.0	0.0-53.5	123	2.0	0.4	0.0-14.0	333	7.0	4.8	0.0-53.5
\$5 million to \$10 million	201	9.6	7.9	0.0-66.2	98	1.4	0.2	0.0-16.0	299	6.9	4.6	0.0-66.2
\$10 million to \$50 million	181	8.4	7.0	0.0-36.3	33	1.0	0.2	0.0-6.7	214	7.3	5.5	0.0-36.3
\$50 million or more	39	9.2	7.3	0.2-38.6	1	—	—	—	40	9.0	7.3	0.2-38.6
Asset Level^c												
Less than \$50 million	102	8.5	4.5	0.0-53.7	145	1.3	1.3	0.0-14.1	247	4.3	1.1	0.0-53.7
\$50 million to \$100 million	195	8.8	7.3	0.0-38.3	107	1.9	0.6	0.0-13.2	302	6.4	4.5	0.0-38.3
\$100 million to \$200 million	200	9.3	7.8	0.0-66.2	48	2.2	0.7	0.0-16.0	248	7.9	5.6	0.0-66.2
\$200 million to \$500 million	115	10.2	7.8	0.0-41.7	17	1.6	0.7	0.0-6.7	132	9.1	6.8	0.0-41.7
\$500 million or more	95	10.6	9.0	0.0-57.3	2	—	—	—	97	10.5	9.0	0.1-57.3

Source: The Foundation Center, 2011: The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

Note: Data are not reported if there are two or fewer foundations in a category.

^aIn this study, staffing was determined by combining information from Internal Revenue Form 990-PF with an annual survey of foundations conducted by the Foundation Center. Foundations that did not report employee salaries, wages, or pension plans/ employee benefits and did not report any employees to the Foundation Center in the survey were unstaffed.

^bIn this table and in Table C.2, giving level categories represent total grants paid as reported on Form 990-PF, Part I, line 25, column D.

^cIn this table and in Table C.3, asset level categories represent the fair market value of a foundation's assets as reported on Form 990-PF, Part II, line 16c.

TABLE C.2: Charitable Administrative Expenses as a Share of Qualifying Distributions for Staffed Foundations by Staffing Level, 2004–2006

Number of Staff ^a	Giving Range											
	Less than \$3 million		\$3 million to \$5 million		\$5 million to \$10 million		\$10 million to \$50 million		More than \$50 million		Overall	
	Median %	N	Median %	N	Median %	N	Median %	N	Median %	N	Median %	N
1	3.5	22	2.6	43	1.8	27	2.0	15	—	0	2.3	107
2 to 3	9.0	30	6.7	81	4.6	62	1.4	31	—	1	5.5	205
4 to 6	15.8	17	11.3	54	9.5	58	5.5	38	—	2	9.2	169
7 to 14	26.6	3	20.6	19	15.8	32	8.8	44	1.9	5	12.6	103
15 to 50	—	0	20.9	3	25.0	10	13.6	46	6.0	15	13.6	74
>50	—	0	—	1	—	1	—	2	12.9	16	14.5	20
All	8.5	76	8.0	210	7.9	201	7.0	181	7.3	39	7.6	707

Source: The Foundation Center, 2011: The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

Note: Data are not reported if there are two or fewer foundations in a category.

^aIf a foundation is classified as staffed, number of staff equals the sum of full-time, part-time, and unspecified staff reported to the Foundation Center. In some cases, a foundation was classified as staffed because it reported employee compensation on Form 990-PF, but it did not report number of staff to the Foundation Center. In these cases, a number was estimated based on employee information from a foundation's annual report, web site, or Form 990-PF. Nevertheless, either because they reported "shared" staff or for lack of information on personnel, 29 staffed foundations are missing a staff number.

TABLE C.3: Selected Components of Charitable Administrative Expenses for the Largest Independent Foundations, 2004–2006
(thousands of dollars)

		Asset Group					Overall
		Less than \$50 million	\$50 million to \$100 million	\$100 million to \$200 million	\$200 million to \$500 million	More than \$500 million	
Total Compensation^a	Mean \$	116.6	161.2	328.5	753.4	4,764.8	702.2
	Median \$	0	86	238.2	554.1	1,978.9	142.7
	# Reporting	111	205	197	115	93	721
	% Reporting ^b	44.9	67.9	79.4	87.8	95.9	70.3
Legal Fees	Mean \$	18.4	12.3	20.1	26.9	164.7	37.8
	Median \$	3.9	2.8	7.1	15.2	52.3	7.1
	# Reporting	129	197	187	115	95	723
	% Reporting	52.2	65.2	75.4	87.8	97.9	70.5
Accounting Fees	Mean \$	7.6	11.3	16.2	26.8	66.2	19.3
	Median \$	4	6.9	9.9	17.5	37.5	9.1
	# Reporting	193	253	218	124	86	874
	% Reporting	78.1	83.8	87.9	94.7	88.7	85.3
Other Professional Fees	Mean \$	61.6	35.5	65.8	171.6	1,604.8	270.3
	Median \$	2.4	2.8	10.0	38.3	181.2	11.9
	# Reporting	131	205	185	109	93	723
	% Reporting	53.0	67.9	74.6	83.2	95.9	70.5
Interest	Mean \$	0.7	2.5	81.2	110.6	263.4	64.6
	Median \$	0	0	0	0	0	0
	# Reporting	67	77	52	44	31	271
	% Reporting	27.1	25.5	21.0	33.6	32.0	26.4
Taxes	Mean \$	7	6.6	18.9	22.1	34.1	14.38
	Median \$	0	0.2	3.9	2.9	2.0	0.3
	# Reporting	183	236	189	103	76	787
	% Reporting	74.1	78.1	76.2	78.6	78.4	76.8
Occupancy	Mean \$	38.1	31.5	60.3	125.6	717.4	1533.3
	Median \$	3.6	21.5	40.5	72.5	308.5	37.3
	# Reporting	92	168	158	99	86	603
	% Reporting	37.2	55.6	63.7	75.6	88.7	58.8
Travel and Conferences	Mean \$	39.8	21.5	33.1	77.2	535.5	105.3
	Median \$	4.8	9.2	13.9	31.0	186.2	15.8
	# Reporting	115	184	171	107	89	666
	% Reporting	46.6	60.9	69.0	81.7	91.8	65.0
Printing and Publications	Mean \$	3.5	3.3	24.6	28.4	153.7	36.9
	Median \$	0.2	0.5	2.7	6.9	63.3	2.6
	# Reporting	83	125	119	81	78	486
	% Reporting	33.6	41.4	48.0	61.8	80.4	47.4
Other Expenses	Mean \$	76.1	66.6	118.7	257.2	1,656.6	266.9
	Median \$	3.8	18.4	45.9	104.4	520.2	37.3
	# Reporting	215	284	231	128	96	954
	% Reporting	87.0	94.0	93.1	97.7	99.0	93.1

Source: The Foundation Center, 2011: The Foundation Finances Database (2004-2006). Sample includes 1,026 of the approximately top 1,500 independent foundations by giving in 2004, 2005, and 2006 for which data were available for all years; qualifying foundations gave at least \$2.2 million each year.

Note: Note: Selected expenses in this table are arranged in the order they are reported in Form 990-PF, Part I, lines 13-23, column D. Some expense categories in the Form 990-PF are not shown in the table above. This is because too few foundations reported such expenses to merit their inclusion.

^aTotal compensation, Form 990-PF, Part I, sum of lines 13-15, column D.

^bPercent reporting represents the percentage of foundations reporting the given type of expense out of all foundations within the size group.