

WHAT DRIVES
Foundation Expenses
& Compensation?
Results of a Three-Year Study

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Executive Summary

This report presents final results from the Foundation Expenses and Compensation Project—the first large-scale, long-term, systematic study of independent, corporate, and community foundations’ expense and compensation patterns and the factors behind them. Documenting the varying characteristics of the 10,000 largest U.S. grantmaking foundations, the study finds these differences—including foundation type, size, and operating activities—essential for understanding foundation finances. Not surprisingly, hiring staff and taking on staff-intensive activities raise charitable administrative expenditures relative to charitable distributions, while relying on unpaid board and family members and engaging in less-staff-intensive activities lower them. Most foundation operations, however, are somewhere between these poles.

The study focuses on 2001, 2002, and 2003, the latest years for which data were available when the research was initiated. Despite the economic downturn and the volatility of the stock market during these years, the patterns of foundation

expenses and compensation are clear and consistent over time. A longer time frame would have been preferable, of course, but this three-year study is the most robust analysis to date of non-profit finances, and it confirms and extends the findings based on 2001 data, as reported in *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (2006).

The study’s goals are to inform public policy debates and foundation practices by documenting administrative expenses reported by foundations for their grants and other charitable activities, examining compensation levels of their executive staff and board members, and assessing the factors that drive both types of expenditures. The focus is specifically on *charitable administrative expenses*, those expenses that relate exclusively to programs and count as qualifying distributions toward the 5 percent payout requirement for private foundations. Expenditures for investment-related activities are not part of this study, except insofar as compensation levels of individual staff and trustees

The Foundation Expenses and Compensation Project is a collaboration of the Urban Institute’s Center on Nonprofits and Philanthropy, the Foundation Center, and GuideStar. All three partners provided financial and programmatic data from IRS Forms 990 and 990-PF, and the Foundation Center collected additional survey data. To examine execu-

tive and board member compensation, the study used individual-level compensation data reported on the IRS forms for officers, trustees, and key paid staff. The Center on Nonprofits and Philanthropy and the Foundation Center analyzed the data and prepared this report.

are based on total compensation, and are not broken down by functions.

For years, discussions of appropriate levels of foundation expenses and compensation have been hampered by insufficient empirical data. This study is large and rigorous enough to answer basic questions about existing practices. The hope is that this report will inform government oversight, sector self-regulation, and individual foundation administration. In particular, foundation managers and board members can use the data to compare their expense levels over several years with those of similar foundations.

The grantmaking foundations profiled and analyzed here are tax exempt—in recognition of their purposes. The Internal Revenue Service requires them to complete annually one of two public information documents: Form 990 for community foundations and Form 990-PF for independent and corporate foundations. These public reports supply much of the data in this study.

The study focuses on the 10,000 largest foundations—roughly 16 percent of all independent, corporate, and community foundations in the United States that reported activity in 2001. Together, they were responsible for 78 percent of all foundation giving in that year and 77 percent of all foundation assets. Independent foundations including family foundations represent nearly 90 percent of these foundations and 80 percent of their giving. Corporate foundations make up 8 percent of the study sample and 13 percent of giving, followed by community foundations at 3 percent of foundations and 9 percent of giving.

About 70 percent of the foundations studied do not employ staff. Instead, donors and their families or other individuals or institutions are entrusted with their operations. About 38 percent report compensating staff or board members, and 76 percent of foundations report incurring program-related (charitable) expenses. In other words, about a quarter of the largest foundations report no expenses as part of their required distributions.

Overall Key Findings

The study examines what factors contribute to foundation expenditure and compensation pat-

terns and whether these patterns change over time or across different types and sizes of foundations. Although the answers to these questions are complex, five key points stand out:

1. **Foundations exhibit enormous diversity in their structures, resources, and operating characteristics, which significantly affect their expense levels.** Besides important legal distinctions between foundations and other types of charitable organizations, sharp contrasts also exist among types of grantmaking foundations.¹ Independent, corporate, and community foundations have different auspices, governance structures, and operational characteristics. Even among foundations of the same type, differences in assets, giving levels, work styles, geographic reach, and program type vary dramatically and produce very different expense and compensation patterns.
2. **The size of the foundation, number of staff, and staff-intensive activities all tend to increase cost ratios.** Surprisingly, even among the largest 10,000 foundations, just 29 percent employ staff. The minority with staff incur significantly higher charitable administrative expense-to-qualifying distribution ratios than the majority without staff. Besides compensation and benefits, more staff means more infrastructure, which raises costs. And engaging in complex activities, such as direct charitable activities (programs conducted mainly by staff), international grantmaking, and program-related investments, also tends to increase cost ratios.
3. **Most foundations do not compensate board members, although compensation is influenced by the type and size of the foundation and the complexity of its programs.** Being staffed and independent are the two characteristics most closely associated with foundations that compensate board members. And, not surprisingly, larger foundations tend to compensate individual board members at higher levels than smaller- or medium-sized foundations.
4. **There is relatively little year-to-year change in the factors that drive expense ratios or in how foundations allocate their charitable administrative expenses during the study**

period. The three-year average smoothes some annual fluctuations, but the underlying patterns remain consistent. The characteristics that influence expenses in 2001 continue to do so in 2002 and 2003. In terms of expense allocations, independent and corporate foundations report modest changes between 2001 and 2003. For community foundations, the percentage of administrative expenses spent on compensation increased.

- 5. The status of the economy, particularly the stock market, affects assets and giving levels and thus the relationship of foundations' charitable administrative expenses to qualifying distributions.** Independent foundations are particularly sensitive to economic trends because their mandated charitable distribution levels (payout) are based on their net assets. The burst of the dot.com bubble and sharp declines in the stock market after the September 11, 2001, terrorist attacks reduced foundations' assets and grantmaking activities and led to several years of uncertainty. Foundations were slower to adjust their program-related expenses. Institutional infrastructure—especially staff size and multiyear program commitments—cannot easily be changed as assets fluctuate from year to year.

Other Findings

Foundation scale influences cost ratios. Foundations with more resources tend to employ more people, engage in complex activities, pay their chief executives more, and compensate board members. At the same time, the largest foundations also enjoy some economies of scale, so they can achieve lower cost ratios for certain activities.

It is difficult to accurately measure corporate foundation expenses because the parent corporation often absorbs some of the costs. As a result, most corporate foundations have lower charitable expense-to-qualifying distribution levels than independent and community foundations of the same size. This makes comparisons between corporate foundations and independent or community foundations difficult.

Compensation of employees and board members is related to operating characteristics and program activities. Almost half the foundations studied compensate staff or board members for work in charitable and investment activities. An important contribution of this study is to separate compensated board members who engage in the day-to-day work of the foundation from board members (paid and unpaid) who are mainly involved in governance.

Components of Foundation Expenses

For all foundations, compensation and the residual “other expenses” category are the two types of charitable administrative expenses most commonly reported. “Other professional fees,” such as consulting services and information technology, modestly increase the total, especially for independent and corporate foundations. “Other expenses” is a residual category for expenses, such as evaluation, new technology, and so on, that do not fit into one of the major line items on the Forms 990 and 990-PF. The extensive use of this line item category suggests the need to revisit and revise the structure of the annual IRS reporting forms.

The distribution of these major expense categories varies by foundation type. For independent foundations, compensation is the biggest component of administrative expenses (47 percent). For corporate and community foundations, “other” expenses is the dominant category.

The size of a foundation's assets and the foundation type have a small but often unclear effect on how a foundation allocates its charitable administrative expenses. For example, small independent foundations tend to allocate a lesser share of their administrative costs on compensation and more on “other expenses” than foundations of other sizes. Large independents spend a higher percentage on consultants (“other professional fees”) than do independents of smaller sizes. Small corporate foundations report a higher share of their charitable administrative expenditures on “other professional fees” and less on compensation than corporate foundations of other sizes. Small community foun-

dations spend relatively less on compensation than their larger counterparts, while larger community foundations report smaller shares of “other expenses” than do smaller community foundations.

Operating Characteristics and Expense Patterns by Foundation Type

Independent Foundations

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. Staff size, which varies greatly even among foundations with similar giving levels, depends on a foundation’s mission, roles, and scope of activities.

Staffed independent foundations tend to have higher charitable administrative expense-to-qualifying distribution ratios than unstaffed foundations. While 36 percent of staffed independents had a ratio below 5 percent, 83 percent of unstaffed foundations were in this range. On the other hand, relatively few independent foundations had ratios greater than 30 percent—7 percent of staffed foundations and less than 1 percent of unstaffed.

International giving, direct charitable activities, and programs that make grants to individuals are strongly associated with higher expense ratios. Besides these staff- and resource-intensive activities, other complex activities that can substantially boost a foundation’s charitable administrative expense levels are making program-related loans and investments (which require special financial expertise) and maintaining a web site.

Donor-family involvement and operating as a nonendowed, or “pass-through,” foundation usually lower charitable administrative expenditure ratios in staffed independent foundations. Most likely, family members help hold staff-related costs down by providing free program administration and other help. Pass-through foundations, which have no permanent

corpus and are mostly small compared with endowed foundations, may have lower expenses because they employ fewer staff and lack long-term administrative infrastructure.

For staffed foundations, foundation size is an important factor in determining expense patterns. Larger givers report lower charitable administrative expense-to-qualifying distribution levels for each staff size group, suggesting greater efficiency with size. Larger givers that give internationally, conduct direct charitable activities, maintain endowments, or maintain web sites also have notably lower expense ratios than smaller foundations with the same activities.

The factors that drive expense ratios change little from year to year. All the characteristics that influenced expenses in 2001 were the same in 2002 and 2003. Still, median expense ratios increased slightly from 2001 to 2003, most notably for staffed foundations that give internationally and those with direct charitable activities.

Corporate Foundations

Compared with other foundation types, corporate foundations have lower expense-to-qualifying distribution ratios and fewer operating characteristics that relate clearly to expenses. Charitable administrative expenses as a percentage of qualifying distributions from 2001 to 2003 are less than 2 percent for 63 percent of staffed foundations and less than 10 percent for 82 percent of corporate foundations. Only a handful of corporate foundations spend more than 30 percent on charitable administrative expenses. The median expense ratio for staffed corporate foundations during this period is less than 1 percent, compared with almost 8 percent for independent foundations and 6 percent for community foundations. Determining actual expenses and staff costs for corporate foundations is difficult since companies often absorb foundation expenses.

Exceptions aside, staff size, geographic scope of grantmaking, and presence or absence of direct charitable activities all influence expense levels. Median charitable expense levels increase along with staff size for large and small corporate

foundations. Corporate foundations that give nationally or internationally tend to have higher expense ratios than strictly local givers. Engaging in direct charitable activities raises charitable administrative expense levels of corporate foundations more than any other characteristic, and median expense ratios of corporate foundations with such activities are far higher than for independent and community foundations. In fact, direct charitable activities make up a bigger share of the charitable disbursements of some large corporate foundations than does grantmaking itself.

The influence of characteristics that increase corporate foundation expense ratios changed little over three years.

Community Foundations

Expense levels are fairly consistent across community foundations, nearly all of which are staffed; in addition, large givers typically benefit less from economies of scale. Charitable administrative expenses as a proportion of qualifying distributions (total program services expenses minus giving) range from under 5 percent for 45 percent of community foundations (compared with 36 percent of staffed independent foundations) to over 30 percent for 9 percent of the foundations; the median is 6 percent. Larger foundations reported slightly higher median expense ratios than smaller foundations (7 percent compared with 5 percent).

Larger staff size affects community foundations' expense levels more than any other factor, followed by direct charitable activities. Charitable administrative expense levels increase sharply with staff size for both large and small community foundations. Community foundations operating their own charitable programs report higher median expense ratios, though their expense levels are much lower than those of independent and corporate foundations. Also, the difference between community foundations with and without direct charitable activities is less pronounced than for the two other types of foundations.

The youngest community foundations have the highest expense levels relative to qualifying

distributions. Possibly, high start-up costs and a focus in their early years on fundraising and endowment building explain why. As grantmaking programs ramp up, administrative expense ratios decrease.

Community foundations with web sites have greater expense-to-qualifying distribution ratios than those without. While web sites alone probably do not drive up expense levels significantly, the foundations that invest in them may be spending more on communications in general.

Characteristics associated with higher expense ratios for community foundations held steady throughout the study period. Median expense levels for each characteristic fluctuate only slightly from 2001 to 2003.

Compensation

Most foundations do not compensate any staff or board members. Even among the 10,000 largest U.S. foundations, more than half (52 percent) report no compensation, benefits, or payroll tax expenses over the three-year study period.

Of the 10,000 foundations studied, 2,938 have paid staff. Top executive staff members earn median compensation of over \$100,000. Executive staff members earn more in larger foundations, with the largest independent foundations typically compensating top executive staff members over \$500,000 in 2003.

Most board members do not receive compensation. Of the 10,000 foundations, 2,571 compensated individual nonstaff board members. Corporate and community foundations rarely compensate board members, but nearly one in five board members in independent foundations receives compensation—a median of roughly \$8,000—in each of the three study years.

About one in eight foundations studied name a bank or other institution to represent the foundation. In many small foundations (annual giving less than \$500,000), these institutional trustees are often the foundation's sole representative, and they earn a median compensation of nearly \$30,000. But the largest

foundations, in which institutional trustees are comparatively rare, pay institutional trustees the most. The approximately 60 foundations with at least \$50 million in annual giving pay their institutional trustees a median compensation of roughly \$250,000.

Implications of the Study

This study's most salient finding is that identifiable factors consistently affect foundation expenses and compensation and change little over time. In addition, influences on foundation finances vary by foundation type—independent, corporate, and community. Further, this study documents the tremendous effect that employing

staff has on the charitable expense portion of qualifying distributions. Key related factors are program priorities and strategies. Scale also matters: larger foundations generally have higher absolute expense levels, but complex grantmaking or operating programs can cost smaller foundations more than larger ones in terms of higher expense ratios.

Note

1. Because the study focuses on grantmaking foundations, operating foundations are not included. While they may engage in some grantmaking, operating foundations use the bulk of their resources to provide charitable services or programs rather than to distribute grants.



Overview of Foundations

Grantmaking foundations are a diverse group of institutions. The unique way in which each conducts its charitable work reflects the values and goals of donors, the oversight of its governing board, and the environment. Even casual observers quickly perceive that foundations fund and operate programs of countless variety, in places near and far. The Foundation Expenses and Compensation Project, a collaboration of the Urban Institute's Center on Nonprofits and Philanthropy, the Foundation Center, and GuideStar, explores how variations in foundations' characteristics and programs influence mission-related administrative expenses.¹ This report builds on the project's earlier analysis, *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (2006) but expands it by averaging three years of data to investigate financial practices over time.²

The study's goal is to inform policy debates around the balance between foundation expenditures for grants and other charitable activities and expenditures for administering these programs and managing the foundation. A lack of empirical data to document current practices—the necessary first step toward a better understanding of what drives expenses—has hampered these discussions. Yet, neither government oversight nor foundation self-regulation can be effective without such information.

The study's chief findings confirm the need to consider a foundation's type and size, mission

and goals, and patterns of operation in assessing its administrative expense and compensation levels. Indeed, without this critical comparison, assessments are likely to miss their mark.

Dimensions of the Study

To study influences on foundations' expenses and compensation levels, the project partners created two data sets. The Foundation Expenses Data Set contains financial and programmatic data for the top 10,000 independent, corporate, and community foundations (ranked by giving levels) as reported on the Forms 990 and 990-PF filed annually with the Internal Revenue Service, supplemented with Foundation Center survey data.³ The Foundation Compensation Data Sets consist of compensation data on more than 50,000 individual officers, directors, trustees, and key employees, and institutional trustees as reported on Forms 990-PF and 990 for the same foundations.

The project's first report covered 2001, a year of tremendous turmoil and change in the U.S. economy. The burst of the dot.com bubble and sharp declines in the stock market in the wake of the September 11, 2001, terrorist attacks reduced foundations' assets and constrained many grantmaking activities. To address the potential anomalies of 2001 and the general limitation of analyzing only one year of data, researchers extended the project to include new data from

2002 and 2003 to determine whether the earlier study's findings held over time. Analyses are presented as yearly trend data and as three-year averages to show the patterns more clearly.

While a robust picture emerges from the three-year study, the analysis and findings have limitations. Specifically, the 2001–03 period represents a low point in the stock market following a decade of high returns. This abrupt economic downturn, with its heavy toll on foundation endowment values, most likely marks a period of adjustment for foundations whose asset returns fund their operations.

Four research questions guided the study:

- Which operating characteristics consistently and notably affect the expenditure and compensation patterns of the 10,000 largest foundations?
- Does the pattern or importance of these characteristics vary by foundation type and size?
- Do these patterns change over time?
- What factors help explain distinctive patterns in compensation of executive staff and board members over time?

Foundations in This Study

U.S. foundations exhibit enormous diversity in their characteristics and structures. They differ in legal and operational ways from other types of charitable organizations, and they contrast sharply with each other.⁴ For example, independent, corporate, and community foundations have different auspices, governance structures, and operational characteristics (box 1.1). Even among foundations of the same type, asset size, work styles, the geographic scope of giving, and programs can vary dramatically. These differences have pronounced effects on foundations' expense and compensation patterns.

The 10,000 foundations studied represent 16 percent of all independent, corporate, and community foundations that report having activity in 2001. Together, they account for 78 percent of all foundation giving in that year and 77 percent of all foundation assets.

Independent foundations, including family foundations, represent nearly 90 percent of the 10,000 foundations in the study. In contrast, corporate foundations make up 8 percent of the study sample, followed by community foundations at 3 percent (figure 1.1).

Independent foundations also hold the vast majority of financial resources (table 1.1). For example, between 2001 and 2003, they have, on average, \$312.4 billion in assets and \$18.3 billion in total giving⁵—or nearly 90 percent of all assets and almost 80 percent of total giving among the largest 10,000 foundations. Corporate foundations have assets of \$12.6 billion, on average (4 percent of all assets), and their total giving sums to \$2.9 billion (13 percent). Community foundations, on the other hand, represent just 3 percent of the largest foundations, but their shares of assets and total giving are more than twice as great. For 2001–03, community foundations report an average of \$24.8 billion in assets (7 percent of all assets in the study), and total giving of \$2.0 billion (9 percent of the total). Despite their small numbers, community foundations command an important share of the financial resources in the foundation grantmaking world.

As table 1.1 also shows, independent foundations account for the lion's share of aggregate charitable administrative expenses,⁶ qualifying distributions,⁷ and charitable compensation.⁸ (Hereafter, we will use the term compensation, which excludes investment-related expenses.) Independent foundations report \$1.7 billion in charitable administrative expenses, \$20.4 billion in qualifying distributions, and \$777.0 million in compensation. For each measure, independent foundations hold at least 80 percent of the total.

Three-quarters of the foundations studied report some type of charitable administrative expenses, but paying compensation is not a common practice. In fact, fewer than two in five (3,752 foundations of the 10,000 largest foundations) report paying compensation during 2001–03. Of those that report compensation, 90 percent were independent foundations. Overall, foundations report \$877.7 million, on average, in compensation for 2001–03.

These three-year averages are consistent with the findings of our previous report, which exam-

2 What Drives Foundation Expenses and Compensation?

Box 1.1. Types of Foundations

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 foundations are governed by the U.S. tax code and its regulations. Two regulations are particularly important for this study of foundation expenses: (1) independent 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 information Form 990-PF, which includes information on finances, grants awarded, direct charitable activities, and other charitable expenses that qualify toward the payout requirement.

Independent foundations' charitable activities may be managed by paid staff, consultants, paid or unpaid board members, paid or unpaid 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.

Corporate Foundations

As private foundations, corporate foundations are subject to the same regulations concerning payout and filing requirements as independent foundations, but their structure and operations are different. Corporate foundations typically maintain close ties to the companies that fund them. For example, the board of directors in a corporate foundation is often composed of corporate officials, although individuals with no corporate affiliation may also serve on the board.

Like independent foundations, corporate foundations may have paid staff, but staff salaries are often covered by the parent company and not reported as an expense by the foundation. The

parent company may also provide such in-kind support as office space, equipment, printing, web site and other communication services, and consultants, which reduces the foundation's reported expenses. These unreported contributions of parent companies and affiliates to corporate foundations make it difficult to determine the true costs of their activities and to compare their expense levels with those of other types of foundations.

Corporate foundations may operate locally, nationally, or internationally. Often, the choice depends on where the company has operations or affiliates.

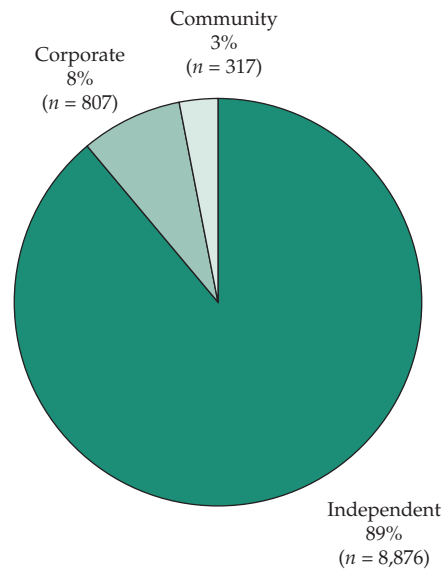
Community Foundations

Unlike independent and corporate foundations, community foundations are classified as public charities because they are publicly supported organizations whose funds are contributed by many donors. Typically, these foundations are governed by a board of individuals chosen to represent the community they serve. As public charities, community foundations are not subject to the same regulations as independent and corporate foundations. For example, community foundations have no payout requirement. They also have different reporting requirements. While they must file an annual Form 990, this form differs from the Form 990-PF in several ways. For example, it categorizes certain expense items differently and does not track direct charitable activities, program-related investments, set-asides, and other "charitable" expenditures that are calculated in satisfying the private foundation payout requirement.

Community foundations may have substantial assets, but they must also continue to raise funds in order to retain their status as public charities. In addition to grantmaking and fundraising, community foundations must manage their composite funds from various donors. Given these diverse functions, even small and relatively new community foundations usually have paid staff, so their expense levels may be high relative to their size.

Although community foundations primarily make grants to charitable organizations within a particular city, county, state or other geographically defined area, they may also give and administer funds outside their designated community.

Figure 1.1. The 10,000 Largest Foundations by Type, 2001–03



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Foundations are ranked by 2001 giving. Data are based on a three-year average for 2001 through 2003.

ined only one year of data (2001). The relative distribution of assets, giving, charitable administrative expenses, and compensation among independent, corporate, and community foundations closely parallels the one-year analysis and underscores the dominant role that independent foundations play in grantmaking (see table A.1.1 in this chapter’s appendix for more detail).

Annual Trends

Behind these averages are some interesting annual variations (see table A.1.2 in chapter appendix).⁹ Overall, foundation assets generally track the U.S. economy. For foundations in the study, assets fell along with stock values for three consecutive years in 2000–02. Year-end assets fell fairly steeply between 2001 and 2002 as the economy faltered, and they rose somewhat between 2002 and 2003 as it recovered (figure 1.2). At the close of 2003, assets remained below their 2000 and 2001 levels. In addition, net assets,¹⁰ used to determine independent and corporate foundations’ qualifying distributions, continued to decline through 2003.

Total giving also starts dropping after 2001. By 2003, it is \$22 billion, or \$2 billion below its value

in 2001—the peak year for foundation giving before the decline.¹¹ This pattern may reflect the continued decline in net assets, the slow recovery of the stock market, and uncertainty among foundations regarding how much their assets would rebound. Many foundations gave at higher than required levels in 2001 in response to the events of 9/11, and some of them used the excess amounts as carryover to meet a portion of their required distribution levels in later years.

At the same time, charitable administrative expenses rose between 2001 and 2002, leveling off by 2003. These expenses were \$1.9 billion in 2001 and \$2.1 billion in both 2002 and 2003—a 10.5 percent gain over the three-year period. These data are not inflation adjusted; inflation was relatively low, 5.2 percent, from January 2001 to December 2003.

In contrast, compensation (one component of charitable administrative expenses) grows throughout the period studied. Based on foundations that report data for all three years, their combined compensation increased from \$777 million in 2001 to \$850 million in 2002 and then to \$889 million in 2003. This 14 percent rise suggests that staffing costs do not adjust quickly as the stock market and asset levels rise and fall. Grant-

4 What Drives Foundation Expenses and Compensation?

Table 1.1. Financial Measures for the 10,000 Largest Foundations by Foundation Type, 2001–03

<i>Financial measure (average for 2001–03)</i>	<i>Independent (n = 8,876)</i>	<i>Corporate (n = 807)</i>	<i>Community (n = 317)</i>	<i>All foundations (n = 10,000)</i>
Total assets (market value)	\$312.4 billion	\$12.6 billion	\$24.8 billion	\$349.8 billion
Total giving	\$18.3 billion	\$2.9 billion	\$2.0 billion	\$23.1 billion
Charitable administrative expenses	\$1.7 billion	\$215.3 million	\$195.8 million	\$2.0 billion
Compensation	\$777.0 million	\$27.7 million	\$73.2 million	\$877.7 million
Qualifying distributions	\$20.4 billion	\$3.1 billion	\$2.1 billion	\$25.6 billion
Number of foundations reporting:				
Charitable administrative expenses	6,773	533	254	7,560
Compensation	3,387	151	214	3,752

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Foundations are ranked by 2001 giving. Charitable administrative expenses and compensation are costs related to the foundation’s charitable mission. The data are based on a three-year average for 2001 through 2003. Data may not sum to totals because of rounding.

making and direct charitable activities generally continue through good and bad times, albeit at sometimes lower levels when assets are in a sustained slump. Complex programs and multi-year commitments may make it hard to quickly cut staff and expenses, even though giving may be curbed. In addition, during the three years studied, some foundations (e.g., community foundations and newly formed independent foundations) continued to build their programs, and some hired executives and staff.

Trends by Foundation Type

This overall picture of key financial measures obscures some interesting contrasts among the different types of foundations. On balance, the overall findings mirror independent foundations’ experience, while corporate and community foundations had somewhat different patterns. All types of foundations see their total assets fall and then rebound, but corporate and community foundations lose proportionally more and rebound more strongly than independent foundations (figure 1.3). By the end of 2003, total assets for independent and corporate foundations studied remain somewhat below their 2001 levels. However, the assets of community foundations rise about \$1 billion over their 2001 levels to \$26 billion.

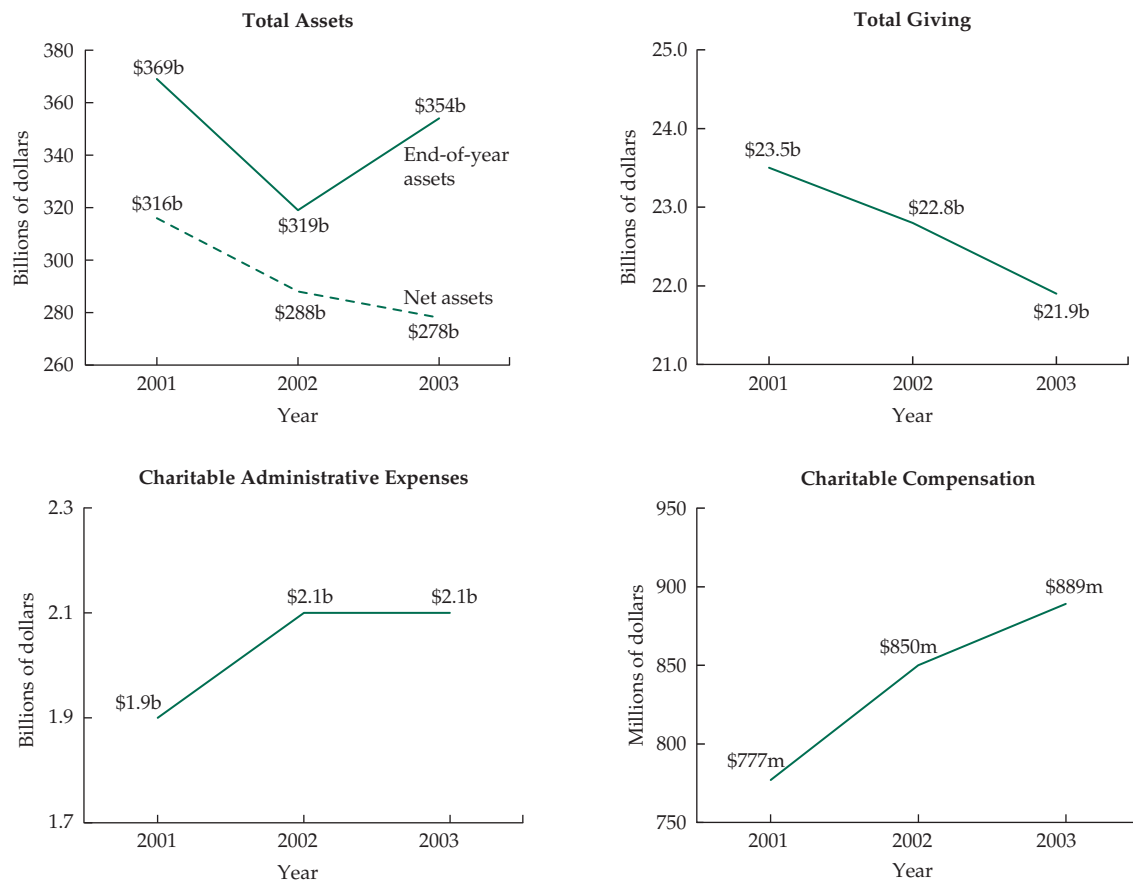
Community foundation assets may recover faster partly because their living donors give

additional funds. Gifts received by all community foundations grow 9.5 percent between 2002 and 2003—from \$3.2 billion to \$3.5 billion. Strikingly, this represents the second-highest level of gifts ever recorded for community foundations.¹²

Overall, measures of giving are down for the years 2001 to 2003. Both independent and corporate foundations report a drop in their giving levels for two consecutive years, whereas community foundations increase giving in both years. On average, giving by community foundations rises almost 6 percent between 2001 and 2003, while giving by independent foundations drops 9 percent and corporate foundation giving declines about 1 percent.

Charitable administrative expenses show yet another pattern (figure 1.3). These expenses grow appreciably for corporate and community foundations between 2001 and 2002, and then fall modestly the following year. Corporate foundations see a 6 percent increase over the period, compared with 21 percent for community foundations. In contrast, independent foundations report modest increases in charitable administrative expenses in both 2001–02 and 2002–03, ending the period with an 11 percent cumulative increase. These findings reflect a lag time between reversals in the economy and resulting drops in the value of foundation portfolios and adjustments in foundation spending patterns. Institutional infrastructure—especially staff size and program commitments—cannot be easily changed as assets fluctuate year to year.

Figure 1.2. Aggregate Finances for the 10,000 Largest Foundations, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Foundations are ranked by 2001 giving. See table A.1.2 for data used in this figure. Charitable administrative expenses and compensation are costs related to the foundation’s charitable mission. Year-to-year financial analyses are based on foundations that reported data for all three years for the key financial variables. The data are not adjusted for inflation.

Finally, compensation increases by roughly 14 percent on average between 2001 and 2003 for all foundations studied. Both independent and community foundations report substantial increases in compensation in the first year (2001–02) and smaller increases in the second year (2002–03). For corporate foundations, compensation also rises in both years, but 2002–03 sees the larger gain—a 9 percent increase the first year and a 16 percent increase in the second. Nonetheless, after a one-year lag, many foundations apparently tamp down growth in their compensation expenses as they adjust to the new economic environment.

Structure of the Report

This chapter summarizes the 2001–03 financial trends of the 10,000 largest foundations (circa

2001) by foundation type, examining the size of their assets, levels of giving, charitable administrative expenses, and compensation. The remainder of the report examines these factors in greater detail and recommends ways to use this information to inform public policy.

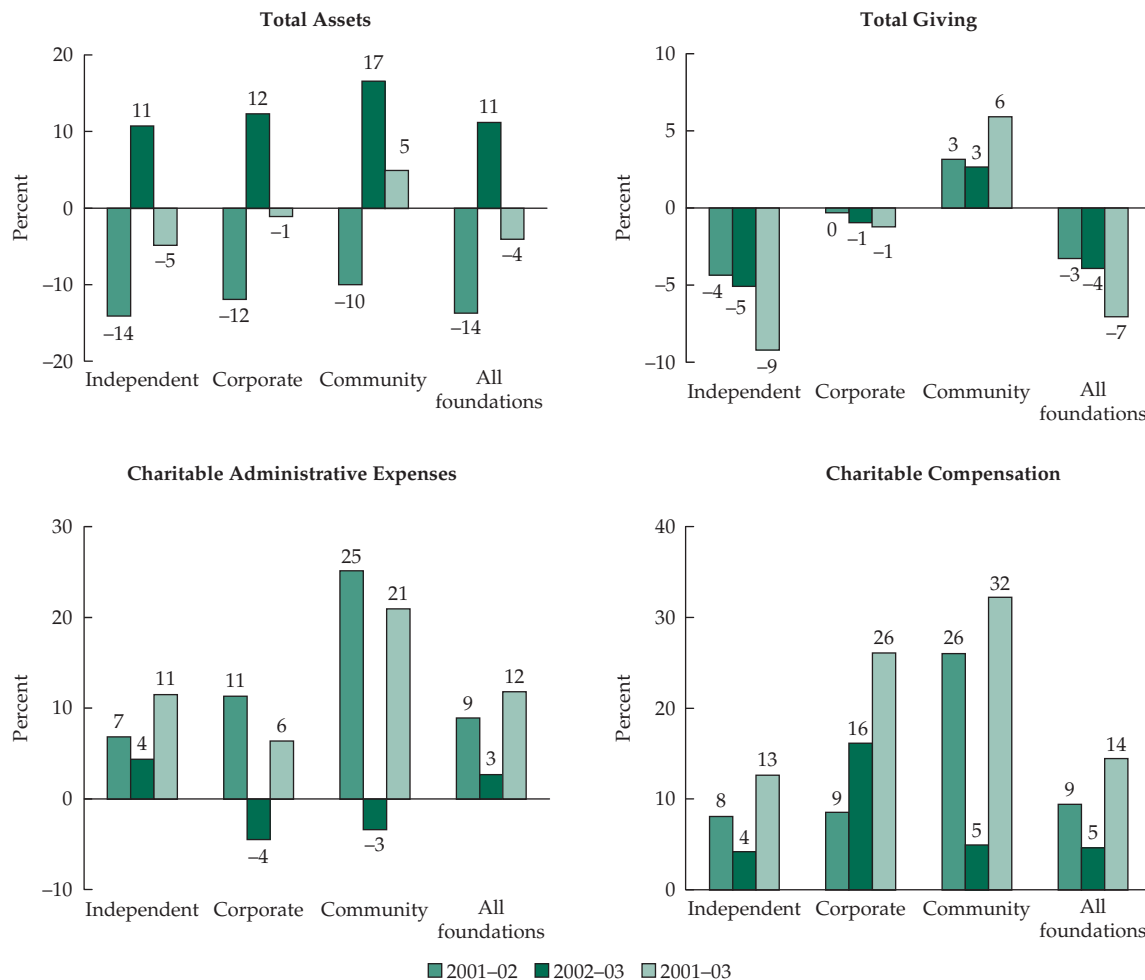
Chapter 2 analyzes the components of charitable administrative expenses and discusses how these components vary by foundation type and size of assets.

Chapter 3 examines in depth how foundations’ operating characteristics—especially employing staff, staff size, amounts of giving, geographic scope of giving, and engagement in direct charitable activities—influence charitable administrative expenses.

Chapter 4 analyzes compensation patterns by foundation type and probes more fully the com-

6 What Drives Foundation Expenses and Compensation?

Figure 1.3. Change in Aggregate Finances for the 10,000 Largest Foundations by Type of Foundation, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

Notes: Foundations are ranked by 2001 giving. Charitable administrative expenses and compensation are costs related to the foundation's charitable mission. Year-to-year financial analyses are based on foundations that reported data for all three years for the key financial variables. The data are not adjusted for inflation. Percentages in individual years may not sum to three-year averages because of rounding.

pensation patterns of board members, institutional trustees, and executive directors.

Chapter 5 summarizes conclusions and offers recommendations to further understand foundation compensation and expense practices.

The appendix provides a detailed review of the definitions and methodologies used in this study, as well as detailed benchmarking tables that provide comparative information on the charitable administrative expenses and compensation of independent, corporate, and community foundations.

Notes

1. This report examines administrative expenses that relate to grantmaking and charitable programs, not to invest-

ment activities. Compensation in chapters 1 and 2 also refers to amounts paid for program-related work. Chapter 4 examines total compensation. Qualifying distributions are all disbursements that count toward the mandatory 5 percent payout requirement of private foundations.

- See Elizabeth T. Boris, Loren Renz, Asmita Barve, Mark A. Hager, and George Hobor, *Foundation Expenses and Compensation: How Operating Characteristics Influence Spending* (Washington, DC: The Urban Institute, The Foundation Center, and GuideStar, 2006).
- The Foundation Center's survey data provide programmatic and operating characteristics (such as foundation type and number of staff) not available from the Forms 990 and 990-PF.
- Because the study focuses on grantmaking foundations, operating foundations are not included. While operating foundations may engage in some grantmaking, they use

the bulk of their resources to provide charitable services or programs rather than to distribute grants.

5. Independent and corporate foundations report total giving on the Form 990-PF under part I, line 25, column d. Community foundations report it on Form 990, part II, lines 22 and 23, column b.
6. Charitable administrative expenses are the costs incurred by foundations related to their charitable mission. For independent and corporate foundations, these expenses are found on Form 990-PF, part I, line 24, column d. For community foundations, they are on Form 990, part II, line 44 minus lines 22 and 23, column b.
7. Qualifying distributions are all disbursements that count toward the mandatory 5 percent payout requirement of private foundations. For independent and corporate foundations, qualifying distributions are derived from Form 990-PF, part XII, line 4. For community foundations, we used total program services expenditures (Form 990, part II, line 44, column b) as a proxy for qualifying distributions.
8. Charitable compensation is the portion of total compensation related to the foundation's charitable mission. It is counted as part of the foundation's qualifying distribution. Charitable compensation for independent and corporate foundations is derived from Form 990-PF, Part I, sum of lines 13–15, column d. For community foundations, we use total program services compensation (Form 990, Part II, sum of lines 25–29, column b) as a proxy for charitable compensation.
9. The analysis of year-to-year financial trends is based on foundations that reported data for all three years. Financial data were not adjusted for inflation because annual inflation during this period was relatively low.
10. Net noncharitable use assets are the average monthly fair market value of a foundation's assets over the tax year reported. This is the asset value used to calculate qualifying distributions of private foundations.
11. See Steven Lawrence, *Foundation Yearbook: Facts and Figures on Private and Community Foundations* (New York: The Foundation Center, 2006).
12. See The Foundation Center, *Foundation Yearbook: Facts and Figures on Private and Community Foundations* (New York: The Foundation Center, 2005).

8 What Drives Foundation Expenses and Compensation?

Chapter 1 Appendix

Table A.1.1. Aggregate Finances of the 10,000 Largest Foundations by Type of Foundation, 2001, 2002, and 2003

<i>Financial measure</i>	<i>Independent</i>	<i>Corporate</i>	<i>Community</i>	<i>All foundations</i>
Average 2001–03				
Number of foundations	8,876	807	317	10,000
Total assets (market value)	\$312.4 billion	\$12.6 billion	\$24.8 billion	\$349.8 billion
Total giving	\$18.3 billion	\$2.9 billion	\$2.0 billion	\$23.1 billion
Total charitable administrative expenses	\$1.7 billion	\$215.3 million	\$195.8 million	\$2.0 billion
Total compensation	\$777.0 million	\$27.7 million	\$73.2 million	\$877.7 million
Total qualifying distributions	\$20.4 billion	\$3.1 billion	\$2.1 billion	\$25.6 billion
Median charitable administrative expenses	\$6,490	\$1,542	\$115,648	\$6,362
Median qualifying distributions	\$481,623	\$793,120	\$1,668,573	\$511,381
2001				
Number of foundations	8,876	807	317	10,000
Total assets (market value)	\$333.7 billion	\$13.2 billion	\$25.2 billion	\$372.1 billion
Total giving	\$19.2 billion	\$2.9 billion	\$1.9 billion	\$24.0 billion
Total charitable administrative expenses	\$1.6 billion	\$200.7 million	\$168.7 million	\$1.9 billion
Total compensation	\$717.6 million	\$24.3 million	\$60.2 million	\$802.1 million
Total qualifying distributions	\$21.2 billion	\$3.1 billion	\$2.1 billion	\$26.4 billion
Median charitable administrative expenses	\$5,171	\$800	\$96,531	\$4,952
Median qualifying distributions	\$492,862	\$779,884	\$1,456,156	\$517,848
2002				
Number of foundations	8,767	799	303	9,869
Total assets (market value)	\$284.6 billion	\$11.5 billion	\$22.6 billion	\$318.6 billion
Total giving	\$18.1 billion	\$2.8 billion	\$1.9 billion	\$22.9 billion
Total charitable administrative expenses	\$1.6 billion	\$220.7 million	\$199.2 million	\$2.1 billion
Total compensation	\$771.2 million	\$25.9 million	\$76.8 million	\$873.8 million
Total qualifying distributions	\$20.1 billion	\$3.0 billion	\$2.2 billion	\$25.4 billion
Median charitable administrative expenses	\$5,298	\$500	\$130,819	\$4,971
Median qualifying distributions	\$458,158	\$738,243	\$1,613,781	\$487,130
2003				
Number of foundations	8,676	797	313	9,786
Total assets (market value)	\$314.9 billion	\$12.9 billion	\$26.2 billion	\$354.1 billion
Total giving	\$17.2 billion	\$2.8 billion	\$2.0 billion	\$22.0 billion
Total charitable administrative expenses	\$1.7 billion	\$211.3 million	\$200.8 million	\$2.1 billion
Total compensation	\$809.4 million	\$30.5 million	\$80.9 million	\$920.7 million
Total qualifying distributions	\$19.2 billion	\$3.0 billion	\$2.1 billion	\$24.3 billion
Median charitable administrative expenses	\$5,431	\$538	\$130,053	\$5,175
Median qualifying distributions	\$430,193	\$709,390	\$1,569,278	\$460,466

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Foundations are ranked by 2001 giving. Data are based on a three-year average for 2001 through 2003. Charitable administrative expenses and compensation are costs related to the foundation's charitable mission. Data may not sum to totals because of rounding.

Table A.1.2. Aggregate Finances for the Foundations in the Study that Reported Data for All Three Years, by Type of Foundation, 2001, 2002, and 2003

<i>Financial measure</i>	<i>Independent</i>	<i>Corporate</i>	<i>Community</i>	<i>All foundations</i>
Average 2001–03				
Number of foundations	8,667	765	300	9,732
Total assets (market value)	\$310.2 billion	\$12.5 billion	\$24.6 billion	\$347.2 billion
Total giving	\$18.0 billion	\$2.8 billion	\$1.9 billion	\$22.7 billion
Total charitable administrative expenses	\$1.6 billion	\$211.8 million	\$194.4 million	\$2.0 billion
Total compensation	\$744.4 million	\$25.3 million	\$69.4 million	\$839.1 billion
Total qualifying distributions	\$20.0 billion	\$3.0 billion	\$2.1 billion	\$25.2 billion
Median charitable administrative expenses	\$6,829	\$1,762	\$128,237	\$6,803
Median qualifying distributions	\$482,913	\$770,084	\$1,713,998	\$511,000
2001				
Number of foundations	8,667	765	300	9,732
Total assets (market value)	\$331.0 billion	\$13.0 billion	\$25.0 billion	\$369.0 billion
Total giving	\$18.9 billion	\$2.8 billion	\$1.9 billion	\$23.5 billion
Total charitable administrative expenses	\$1.5 billion	\$197.8 million	\$166.0 million	\$1.9 billion
Total compensation	\$696.3 million	\$22.6 million	\$58.1 million	\$777.0 million
Total qualifying distributions	\$20.9 billion	\$3.0 billion	\$2.0 billion	\$25.9 billion
Median charitable administrative expenses	\$5,384	\$849	\$99,488	\$5,171
Median qualifying distributions	\$494,313	\$774,009	\$1,591,791	\$517,511
2002				
Number of foundations	8,652	780	300	9,732
Total assets (market value)	\$284.5 billion	\$11.5 billion	\$22.5 billion	\$318.5 billion
Total giving	\$18.0 billion	\$2.8 billion	\$1.9 billion	\$22.8 billion
Total charitable administrative expenses	\$1.6 billion	\$220.2 million	\$207.7 million	\$2.1 billion
Total compensation	\$752.4 million	\$24.5 million	\$73.2 million	\$850.2 million
Total qualifying distributions	\$20.1 billion	\$3.0 billion	\$2.2 billion	\$25.2 billion
Median charitable administrative expenses	\$5,608	\$588	\$134,274	\$5,246
Median qualifying distributions	\$459,419	\$738,850	\$1,694,725	\$488,971
2003				
Number of foundations	8,640	791	301	9,732
Total assets (market value)	\$315.0 billion	\$12.9 billion	\$26.2 billion	\$354.1 billion
Total giving	\$17.1 billion	\$2.8 billion	\$2.0 billion	\$21.9 billion
Total charitable administrative expenses	\$1.7 billion	\$210.4 million	\$200.7 million	\$2.1 billion
Total compensation	\$784.1 million	\$28.5 million	\$76.8 million	\$889.4 million
Total qualifying distributions	\$19.2 billion	\$3.0 billion	\$2.1 billion	\$24.3 billion
Median charitable administrative expenses	\$5,565	\$600	\$143,615	\$5,261
Median qualifying distributions	\$431,276	\$707,536	\$1,636,319	\$461,071

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Note: Data are for foundations that reported key financial information for all three years on the Forms 990 and 990-PF. Charitable administrative expenses and compensation are costs related to the foundation's charitable mission. Data may not sum to totals because of rounding.



Components of Foundation Charitable Administrative Expenses

What Are Charitable Administrative Expenses?

Like other nonprofit and for-profit organizations, foundations incur administrative expenses in conducting their business. These may include employee salaries and benefits, compensation of officers and board members, legal and accounting fees, travel, rent, utilities, and other expenses related to grantmaking and related activities. Foundations report these expenses annually on IRS Forms 990-PF and 990.

However, not all administrative expenses count toward the foundation's annual payout requirement. Only expenses related to grants administration and other mission-related charitable activities are qualifying distributions, while investment-related expenses are not. In this report, the term "charitable administrative expenses" designates the former and excludes investment-related expenses.¹

Charitable Administrative Expense Patterns by Foundation Type

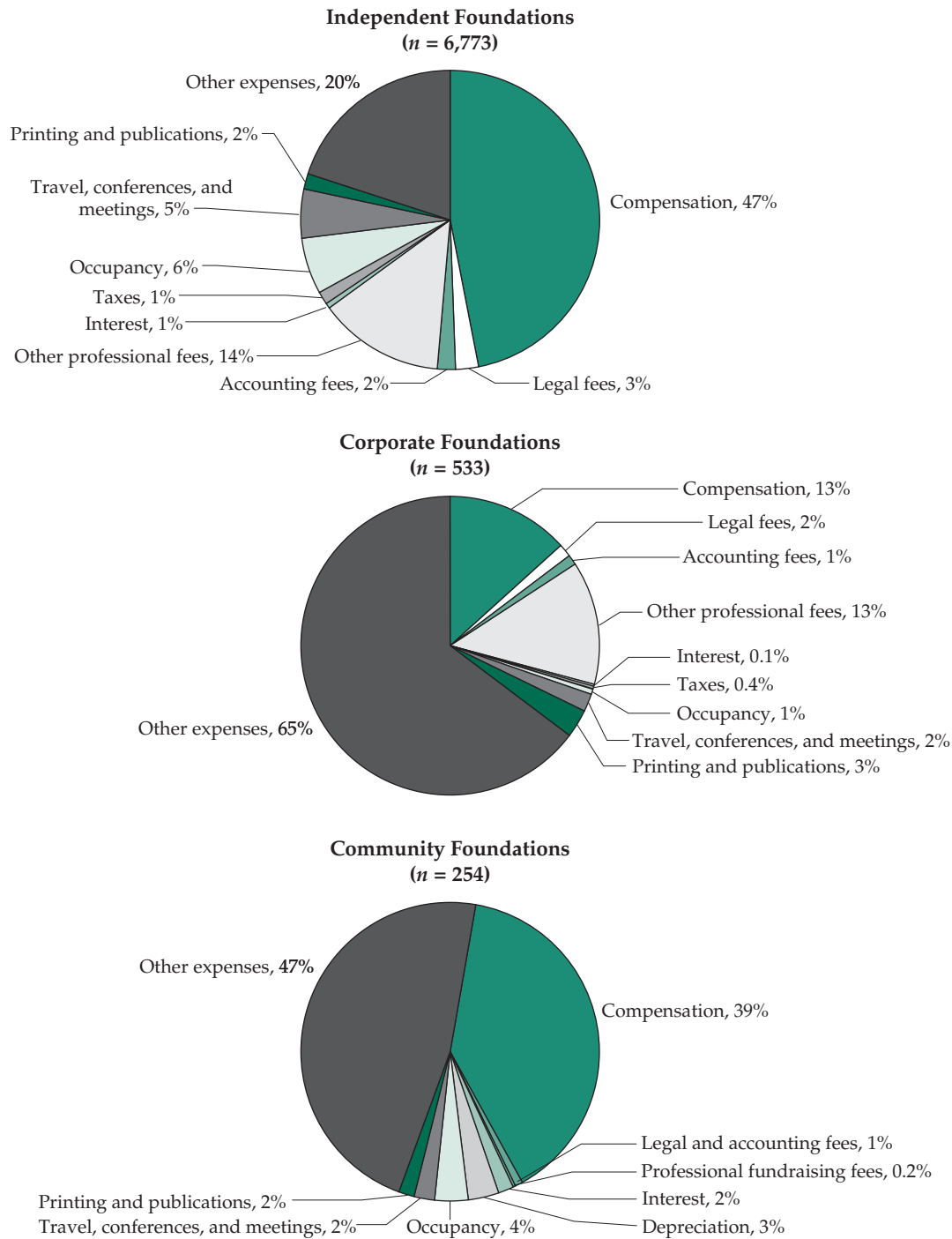
Among the largest 10,000 foundations, roughly three-quarters (7,560) report charitable administrative expenses in 2001–03. Corporate foundations are least likely to report these expenses (34 percent reported none), followed by independent foundations (24 percent) and community founda-

tions (20 percent). Most foundations that do not report charitable administrative expenses are run by donors and their families, unpaid board members, corporate staff, or community volunteers. For independent foundations, donors generally cover these expenses; for corporate foundations, parent companies; and for community foundations, the costs are typically picked up by local banks, businesses, or community groups.

Different types of foundations incur different types of charitable administrative expenses, as shown in figure 2.1. For independent foundations that report charitable administrative expenses, the largest component is compensation paid to the foundation's staff, officers, and board members for duties related to charitable activities.² Nearly half of independent foundations' charitable expense dollars (47 percent) go to compensation between 2001 and 2003. Community foundations that incur such expenses report 39 percent of these expenses as compensation, while corporate foundations (whose staff are often on the parent company's payroll) report 13 percent.

Besides compensation, "other professional fees"³ and "other expenses"⁴ are the other main categories of charitable administrative expenses. For independent and corporate foundations, other professional fees account for less than 15 percent of charitable administrative expenses; for community foundations, less than 1 percent is spent specifically on professional fundraising

Figure 2.1. Components of Charitable Administrative Expenses for Independent, Corporate, and Community Foundations, 2001–03



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: The data are based on a three-year average for 2001 through 2003. Compensation includes costs related to the foundation’s charitable mission and excludes investment-related expenses.

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fees. This difference between community foundations and other foundations is a reporting issue because the Form 990 does not collect information on “other professional fees” in the same way as Form 990-PF does.

“Other expenses” is the dominant category for corporate and community foundations. Sixty-five percent of corporate charitable administrative expenses are classified as “other,” as are 47 percent of all community foundation expenses.

“Other professional fees” and “other expenses” are vaguely defined expense categories. The first often refers to consulting services associated with administration, program development, or information technology. The second is a residual category for expenses that do not fit into one of the major line items on Forms 990 and 990-PF, such as evaluation and new technology. “Other expenses” is also a catchall category for individuals who do not take the time to allocate items to the correct lines on the forms.

The composition of “other expenses” differs by foundation type. For example, in 2001, for a sample of the largest independent foundations, the top three types of expenses, by dollar amount, are personnel, equipment and supplies, and project development. For corporate foundations, the largest expenditures listed under “other expenses” are for special fundraising events and public service advertising. Only a few corporate foundations do either, but the costs are still high enough to dominate the “other expenses” category. For a sample of community foundations, the top three “other expenses” are consulting and management, investment and custodial, and program development/evaluation.

In sum, the expense categories on the Forms 990 and 990-PF are generally inadequate for a full understanding of foundation expenditures, especially for corporate and community foundations.⁵ Many expenses are lumped under “other,” partly because no specific line items allow foundations to differentiate these expenditures.

Expenditure patterns (see table A.2.1 in this chapter’s appendix) are fairly constant over the three years studied, particularly for independent foundations. Among independent foundations reporting charitable administrative expenses, the share of dollars going to various types of

expenses fluctuates by only 1 or 2 percentage points from year to year. For example, compensation holds steady at approximately 46 or 47 percent of administrative expenses throughout 2001, 2002, and 2003. Many other categories (such as occupancy, taxes, and accounting fees) show virtually no change over the three years.

Community foundations exhibit relatively small changes from year to year, with the most notable changes in compensation and “other expenses.” It is unclear, however, if these are real trends or simply the result of inconsistent reporting. For example, community foundations report a 4.5 percentage point increase in compensation between 2001 and 2003, and a 9 percentage point drop in “other expenses.” Possibly, some expenses previously categorized as “other” shift to compensation between 2001 and 2003.

The changes in corporate foundation patterns are difficult to interpret. Because “other expenses” is a nebulous category, is the relative drop in this category an actual spending decline or simply a reclassification of expenses into other categories? The share of administrative expenses spent on travel, printing, occupancy, taxes, and accounting fees stays fairly consistent from year to year.

Differences by Asset Size

Foundation size often affects internal operating structures, program complexity, and administrative expenditures. Specifically, larger foundations are more likely than smaller ones to have more complex structures and programs and thus to exhibit different patterns of charitable administrative expenses. To examine this idea, foundations were classified by asset size and their three major charitable administrative expenses (compensation, other professional fees, and other expenses) analyzed.

Independent Foundations

For independent foundations, the vast majority of foundations in this study, compensation accounts for nearly half (47 percent) of all charitable administrative expenses. Professional fees contribute about 14 percent and other expenses

about 20 percent (figure 2.2). However, these shares vary slightly by foundation asset size, as these examples show:

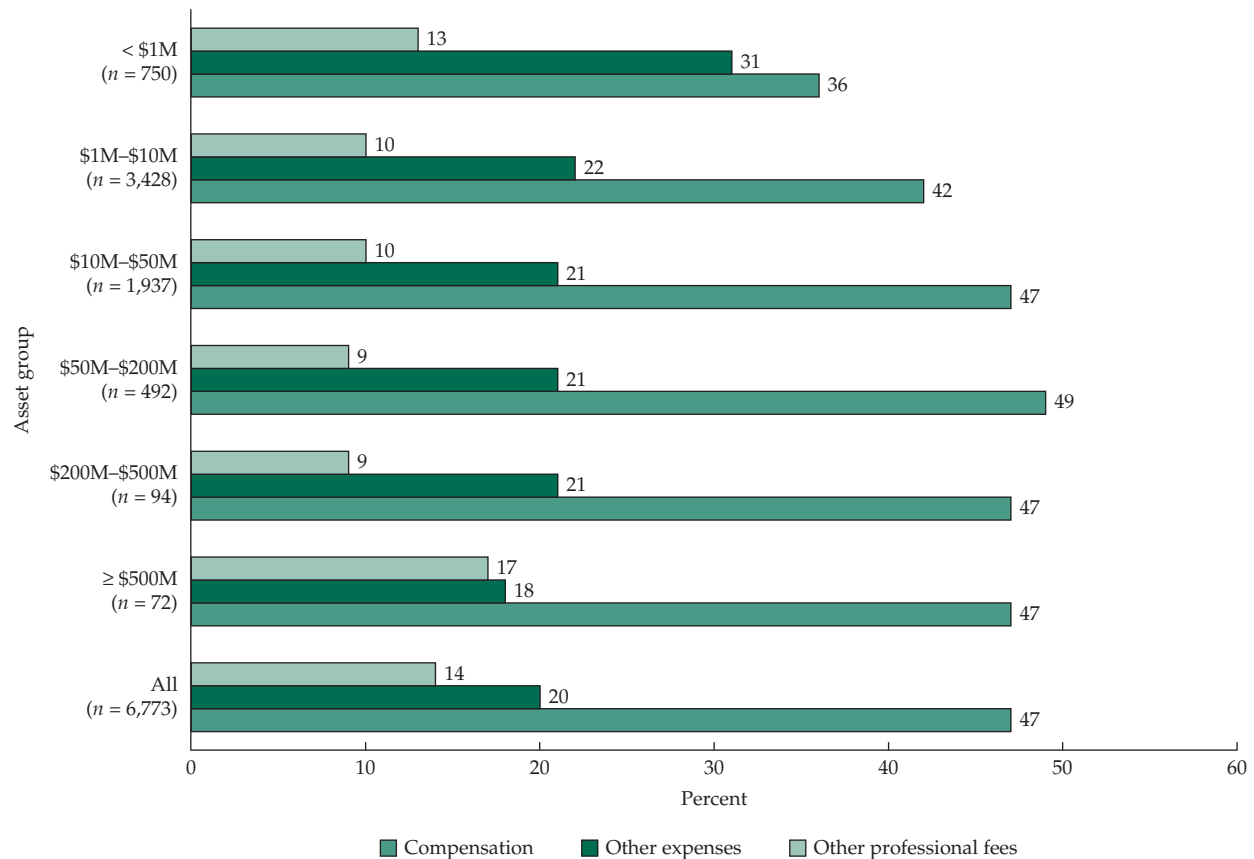
- Small independent foundations with less than \$1 million in assets report the smallest share of compensation, 36 percent—about 10 percentage points lower than the average for all independent foundations with charitable administrative expenses (47 percent).
- Conversely, the smallest independent foundations assign relatively more expenditures to “other expenses” than do all independent foundations—31 percent versus 20 percent. Either small independent foundations’ spending patterns differ somewhat from those of other independent

foundations or the Form 990-PF does not adequately capture their expenditures.

- After passing the \$10 million asset threshold, independent foundations vary relatively little in the share of administrative expenses spent on compensation, which ranges from 47 to 49 percent.
- Very large independent foundations, with assets of \$500 million or more, report the largest share of “other professional fees” (e.g., consultants and contractors)—17 percent. For all other independent foundations, the typical share hovers around 9 to 10 percent.

Year-to-year trends in these spending patterns show only modest change, though the magnitude of the changes sometimes varies by asset size (see

Figure 2.2. Compensation, Other Expenses, and Other Professional Fees as a Percentage of Charitable Administrative Expenses: Independent Foundations with Charitable Expenses, 2001–03



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Data are based on a three-year average for 2001 through 2003. Compensation includes costs related to the foundation’s charitable mission and excludes investment-related expenses.

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table A.2.2 in chapter appendix). For example, overall compensation as a percentage of charitable administrative expenses rose by less than 1 percentage point between 2001 and 2003 (from 45.8 percent in 2001 to 46.4 percent in 2003). However, very small independent foundations with less than \$1 million in assets report the largest increase—nearly 8 percentage points—from 24 percent to 32 percent. Independents of all other asset sizes report only minor annual fluctuations in the share of funds spent on compensation.

In four of the six asset categories, the share of funds spent on “other professional fees” drops over time, mainly because the very largest independent foundations reduced their share of funds going to “other professional fees” by about 5 percentage points (19 percent in 2001 and 2002, and 14 percent in 2003). “Other professional fees” fluctuated by less than 2 percentage points for independent foundations of all other asset sizes.

Overall, the catchall category, “other expenses,” grew by nearly 4 percentage points between 2001 and 2003, with the very largest independent foundations reporting the largest increase—slightly more than 6 percentage points. Only one asset group (assets of \$200 million to \$500 million) spends relatively less on “other expenses,” reporting a gradual decrease from 23 percent in 2001 to 19 percent in 2003. Spending in this category for all other asset groups either holds steady or grows by 2 or 3 percentage points.

Corporate Foundations

Compared with independent foundations, corporate foundations have a very different pattern of charitable administrative expenses. In corporate foundations, “other expenses” dominate, while compensation and “other professional fees” are relatively small shares of the total. As figure 2.3 shows, this pattern varies somewhat by foundation size, especially among the smaller corporate foundations.

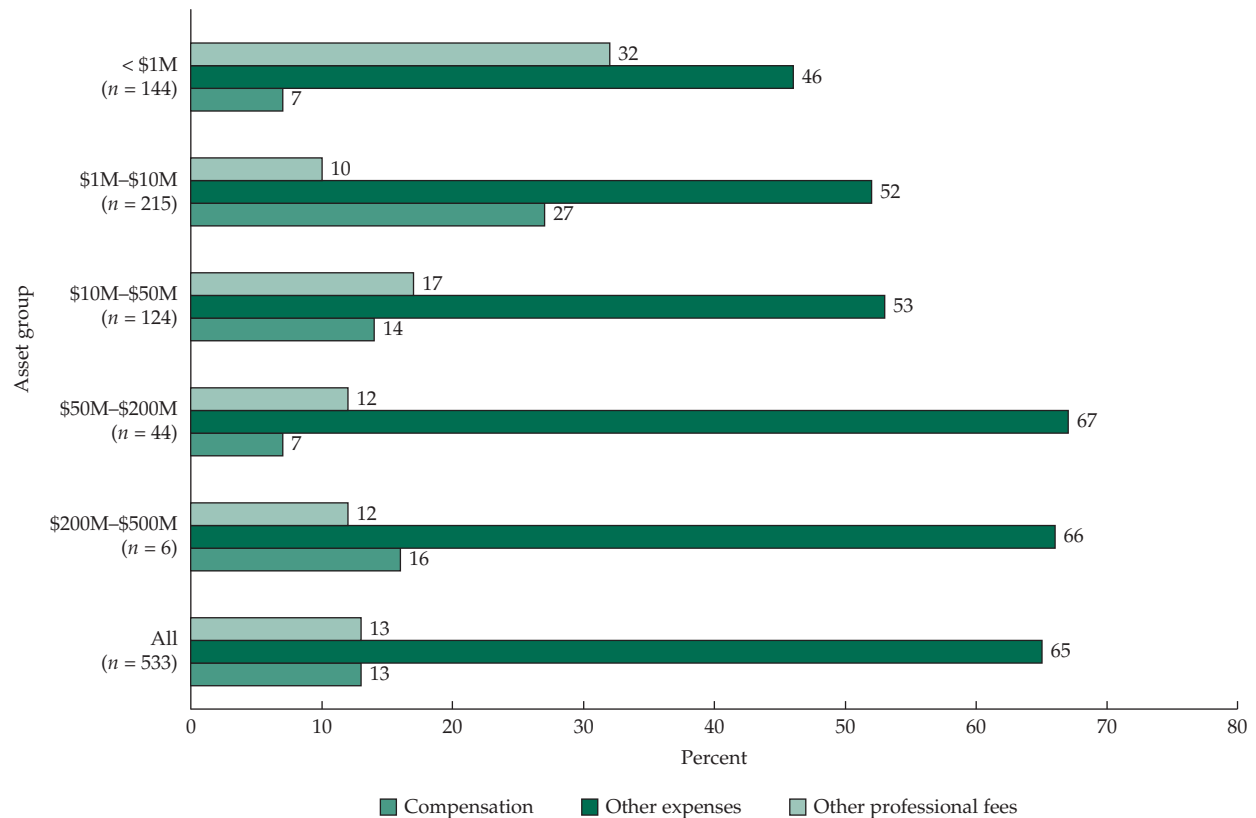
- “Other expenses” is the dominant expenditure category for all corporate foundations regardless of asset size. But the share of charitable administrative costs reported in this category generally increases with the

foundation’s asset size. Corporate foundations with less than \$1 million in assets report just under half (46 percent) of their charitable administrative expenses in this category; those with assets above \$1 million report more than half as “other expenses.”

- The smallest corporate foundations (those with assets less than \$1 million) spend a much greater share of their charitable administrative costs on “other professional fees” than larger foundations do. On average, about one-third (32 percent) of very small corporate foundations’ administrative costs go to such professional services as consultants and technical specialists. In contrast, larger corporate foundations spend between 10 and 17 percent of their charitable administrative expenses on such services.
- Compensation has the most varied pattern. The smallest corporate foundations report the smallest share of compensation (7 percent), perhaps reflecting their tendency to use corporate staff, consultants, and outside professionals rather than paid staff. However, some relatively large corporate foundations (assets of \$50 million to \$200 million) also report spending about 7 percent on compensation, with only modest levels of spending (12 percent) on “other professional fees.” Interestingly, relatively small corporate foundations (assets of \$1 million to \$10 million), which account for 40 percent of all corporate foundations in this study, spend a substantially larger share (27 percent) than foundations of any other size. In short, compensation patterns seem to be less influenced by asset size than by the levels of administrative support that corporate sponsors provide.

Year-to-year changes in these spending patterns show no particular relationship to the size of corporate foundation assets (table A.2.3 in chapter appendix). For example, for all corporate foundations “other professional fees” as a percentage of all charitable administrative expenses declined between 2001 and 2002 and rose the next year to

Figure 2.3. Compensation, Other Expenses, and Other Professional Fees as a Percentage of Charitable Administrative Expenses: Corporate Foundations with Charitable Expenses, 2001–03



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Data are based on a three-year average for 2001 through 2003. Compensation includes costs related to the foundation’s charitable mission and excludes investment-related expenses. Corporate foundations with assets of \$500 million or more are not included in this figure because none of them reported having charitable administrative expenses.

exceed the initial 2001 level. However, this pattern applies to just two of the five asset groups in the study—those with assets between \$1 million and \$10 million and those with assets from \$50 million to \$200 million. Corporate foundations with less than \$1 million report large and steady declines in their share of spending on other professional fees, whereas large foundations (with assets of \$200 million to \$500 million) have steady increases.

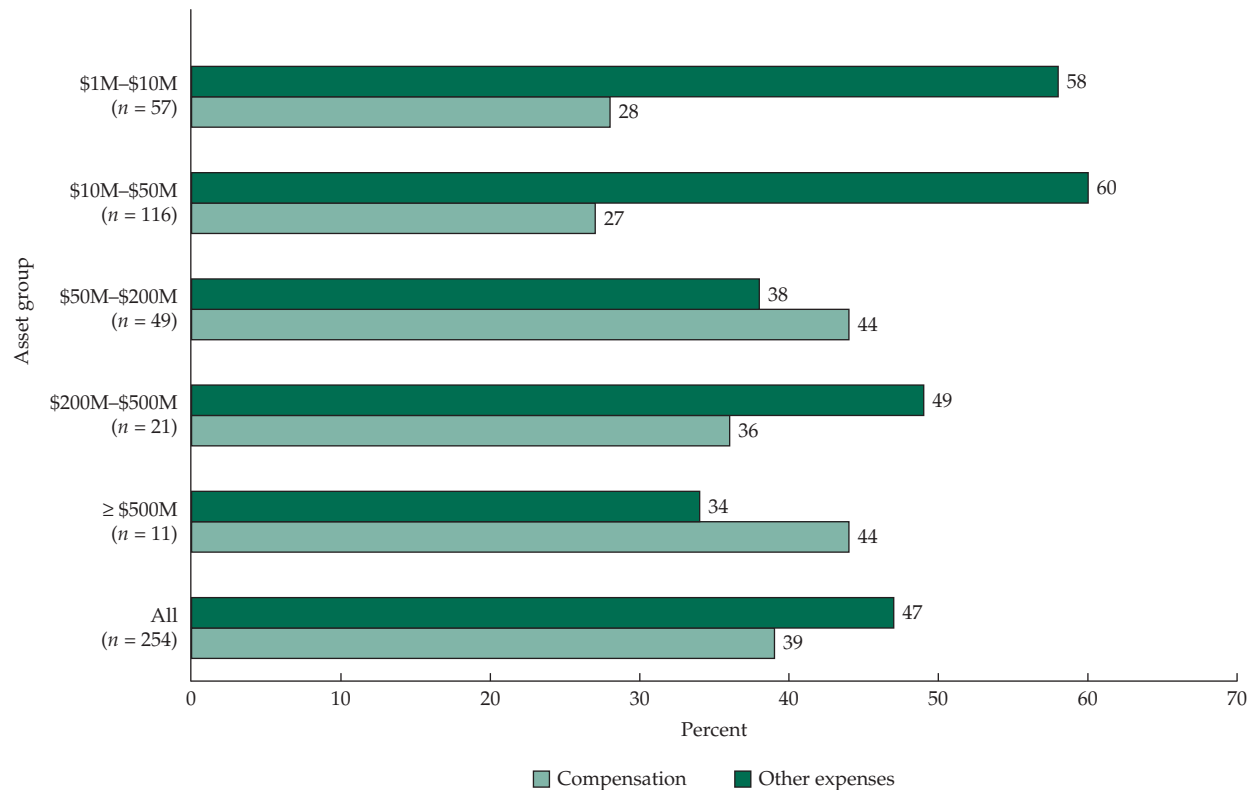
Similarly, annual fluctuations in compensation and “other expenses” seem to bear little relation to the corporate foundation’s asset size. The change can be in any direction and of any magnitude. These gyrations may occur because the parent companies of corporate foundations often provide some of their operating and administrative support, the types and levels of which may fluctuate from year to year.

Community Foundations

For community foundations reporting charitable administrative expenses, the two largest components are compensation and “other expenses.” Combined, they account for 86 percent of all charitable administrative expenses. But the relative importance of these two types of expenses varies by foundation size, as shown in figure 2.4.

- For community foundations overall, compensation accounts for 39 percent of charitable administrative expenditures, with larger community foundations spending proportionally more than smaller ones. Community foundations with assets of more than \$50 million spend roughly 35 to 45 percent of their charitable administra-

Figure 2.4. Compensation and Other Expenses as a Percentage of Charitable Administrative Expenses: Community Foundations with Compensation, 2001–03



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: The data are based on a three-year average for 2001 through 2003. Compensation includes costs related to the foundation’s charitable mission and excludes investment-related expenses. Community foundations with assets of less than \$1 million are not included in this figure because none of them reported having charitable administrative expenses.

tive costs on compensation; for smaller foundations (under \$50 million), the share is closer to 25 or 30 percent.

- Like corporate foundations, community foundations report most of their expenditures as “other.” Forty-seven percent of charitable administrative expense dollars are reported in this category. However, the size of the foundation’s assets appears related to the use of this residual category. Foundations with larger assets generally report a smaller share of their administrative expenses as “other” than do foundations with smaller assets. For 2001–03, community foundations with assets under \$50 million report roughly 60 percent of their charitable administrative expenses as “other.” For large community foundations with assets of over \$50 million, the range is 35 to 50 percent.

Here again, at least three factors may explain these different charitable administrative expense patterns among community foundations. First, larger foundations may incur relatively more compensation expenses because they run larger and possibly more complex programs and donor services. Second, the differences may reflect the push of market forces, especially for larger foundations, to offer competitive salaries to attract staff. Third, the differences may result from inadequacies of the Form 990 to capture certain types of administrative expenses incurred by community foundations, such as consulting services, program development, evaluation, and technology-related costs.

Annually, the proportion of charitable administrative expenses going to compensation tends to increase over the three years studied, gradually moving from 35 percent in 2001 to 37 percent in 2002, and increasing to 40 percent in 2003 (see

table A.2.4 in chapter appendix). This pattern is most pronounced among smaller foundations. For example, community foundations with assets of \$1 million to \$10 million report almost a 10 percentage point increase (26 percent in 2001 to 35 percent in 2003). Larger foundations with assets of \$200 million or more report very little change in the share of charitable administrative expenses devoted to compensation.

On the other hand, “other expenses” tend to follow a downward trend. For all but the very largest community foundations, the share of charitable administrative expenses reported as “other” declined between 2001 and 2003. The smallest community foundations (\$1 million to \$10 million in assets) report an 11 percentage point drop from 60 percent in 2001 to 49 percent in 2003. Mid-sized foundations with assets of \$50 million to \$200 million reported a 17 percentage point decline (45 percent to 28 percent). For the very largest foundations with assets of \$500 million or more, the share of administrative expenses categorized as “other” remains fairly steady, increasing slightly from 32 percent to 34 percent between 2001 and 2003. Once again, these results defy easy interpretation because this residual category is nebulous.

Key Findings

Five key findings emerge from this examination of charitable administrative expenses:

- For all foundations, compensation and “other expenses” are the two types of charitable administrative expenses most commonly reported, with “other professional fees” contributing a modest share to the total, especially for independent and corporate foundations.
- The distribution of these major expense categories varies by foundation type. For independent foundations, compensation is the biggest component of charitable administrative expenses (47 percent). For corporate and community foundations, “other” expenses dominates.
- The size of a foundation’s assets has a small, but sometimes hazy, relationship to how a foundation allocates its charitable administrative expenses. The pattern also varies by foundation type.
- Even though the three-year average smoothes some annual fluctuations, year-to-year changes in how foundations allocate their charitable administrative expenses are relatively small from 2001 to 2003.
- Trends in expenditure patterns vary by foundation type and, to a lesser extent, by asset size.
- The forms used by foundations (Forms 990 and 990-PF) to report their annual expenses do not adequately differentiate the types of expenses incurred. As a result, many expenses are reported as “other,” making it difficult to obtain a clear view of the patterns and trends in charitable administrative expenditures, especially for corporate and community foundations. However, the data highlight the diversity of foundations and suggest that foundation type and, to a lesser extent, asset size are major factors in the charitable administrative expense components of grant-making foundations and must be part of any serious assessment of foundations’ performance.

Notes

1. Total charitable administrative expenses for independent and corporate foundations are derived from the Form 990-PF, Part I, line 24, column d. For community foundations, the information is from Form 990, Part II, line 44 minus lines 22 and 23, column b.
2. Compensation includes employee salaries and wages; compensation of officers, board members, and trustees; and pension plans and other benefits, with the exception of investment-related expenses for private foundations and investment- and fundraising-related expenses for community foundations. These items are found on Form 990-PF, Part I, lines 13–15, column d, and on Form 990, Part II, lines 25–29, column b.
3. “Other professional fees” for independent and corporate foundations are derived from the Form 990-PF, Part I, line 16c, column d. For community foundations, the data for

- professional fundraising fees are from Form 990, Part II, line 30, column b.
4. "Other expenses" for independent and corporate foundations are derived from Form 990-PF, Part I, line 23, column d. For community foundations, the data are from Form 990, Part II, lines 43a–e, column b.
 5. The IRS has proposed revisions to Form 990 that, if enacted, would provide community foundations with additional categories to report some of these expenses. The revision of Form 990-PF will not occur for several years, but a similar change would require more detailed reporting for independent and corporate foundations.

Chapter 2 Appendix

Table A.2.1. Charitable Administrative Expenses for the 10,000 Largest Foundations by Type of Foundation and Expense, 2001, 2002, and 2003 (expenses expressed as percentages)

<i>Type of foundation and expense</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Average 2001–03</i>
Independent foundations				
Number of foundations	6,582	6,582	6,582	6,582
Compensation	45.8	46.6	46.4	46.2
Legal fees	2.6	2.3	2.5	2.4
Accounting fees	1.9	1.9	1.8	1.9
Other professional fees	14.4	14.3	11.6	13.3
Interest	0.8	0.8	0.6	0.7
Taxes	1.2	1.1	1.1	1.2
Occupancy	6.2	6.1	6.0	6.1
Travel	5.8	5.3	4.9	5.3
Printing	1.8	1.6	1.2	1.5
Other expenses	18.1	19.1	21.7	19.6
Corporate foundations				
Number of foundations	506	506	506	506
Compensation	11.7	11.7	14.4	12.5
Legal fees	0.5	0.6	3.2	1.4
Accounting fees	0.8	0.9	0.9	0.9
Other professional fees	13.7	10.4	14.6	13.0
Interest	0.0	0.0	0.1	0.1
Taxes	0.5	0.3	0.3	0.3
Occupancy	0.6	0.5	0.7	0.6
Travel	1.7	1.8	1.9	1.8
Printing	3.8	2.7	2.5	3.0
Other expenses	66.1	70.4	48.4	61.0
Community foundations				
Number of foundations	245	245	245	245
Compensation	35.4	36.8	40.0	37.0
Legal and accounting fees	0.8	0.8	0.7	0.8
Professional fundraising fees	0.7	0.0	0.0	0.2
Interest	1.1	1.9	1.8	1.6
Occupancy	3.7	3.2	3.7	3.5
Travel	2.4	2.3	2.2	2.3
Printing	1.7	1.5	1.2	1.4
Depreciation	3.0	3.4	2.4	2.9
Other expenses	47.9	46.3	39.2	43.7

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Foundations are ranked by 2001 giving. Data are for foundations that reported charitable administrative expense values greater than zero and had data for all three years. Compensation includes costs related to the foundation's charitable mission and excludes investment-related expenses. Data may not sum to totals because of rounding.

Table A.2.2. Compensation, Other Expenses, and Other Professional Fees as a Percentage of Charitable Administrative Expenses: Independent Foundations by Asset Group, 2001, 2002, and 2003

<i>Type of expense and asset group</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Average 2001–03</i>	<i>N</i>
Compensation					
Less than \$1 million	24.4	26.2	32.1	26.8	352
\$1 million to \$10 million	40.1	42.9	41.7	41.0	2,209
\$10 million to \$50 million	47.0	46.1	46.0	46.3	1,449
\$50 million to \$200 million	49.4	49.0	48.7	48.9	451
\$200 million to \$500 million	46.7	49.1	44.7	46.7	94
\$500 million or more	45.5	46.4	47.0	46.2	70
All independent foundations	45.8	46.6	46.4	46.2	4,625
Other expenses					
Less than \$1 million	36.1	35.9	35.6	35.5	613
\$1 million to \$10 million	18.9	20.9	21.2	20.1	3,119
\$10 million to \$50 million	19.3	21.4	21.5	20.8	1,830
\$50 million to \$200 million	18.5	22.8	21.7	21.0	477
\$200 million to \$500 million	23.2	22.4	18.9	21.4	94
\$500 million or more	16.0	16.1	22.2	18.1	70
All independent foundations	18.1	19.1	21.7	19.6	6,203
Other professional fees					
Less than \$1 million	10.3	9.8	10.8	10.1	576
\$1 million to \$10 million	10.5	10.1	8.9	9.7	3,062
\$10 million to \$50 million	9.5	9.5	9.4	9.4	1,815
\$50 million to \$200 million	9.8	9.1	8.2	9.0	473
\$200 million to \$500 million	9.1	8.5	8.8	8.8	93
\$500 million or more	18.8	18.9	14.3	17.2	70
All independent foundations	14.4	14.3	11.6	13.3	6,089

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Data are for foundations that reported compensation, other professional fees, or other expenses for all three years and had a charitable administrative expense value greater than zero. Compensation includes costs related to the foundation’s charitable mission and excludes investment-related expenses. Data may not sum to totals because of rounding.

Table A.2.3. Compensation, Other Expenses, and Other Professional Fees as a Percentage of Charitable Administrative Expenses: Corporate Foundations by Asset Group, 2001, 2002, and 2003

Type of expense and asset group	2001	2002	2003	Average 2001–03	N
Compensation					
Less than \$1 million	4.4	7.8	8.8	6.5	32
\$1 million to \$10 million	28.4	23.6	31.3	27.3	99
\$10 million to \$50 million	9.9	17.1	12.8	12.4	72
\$50 million to \$200 million	6.7	5.6	8.6	7.0	37
\$200 million to \$500 million	14.5	15.5	18.0	16.0	6
All corporate foundations	11.7	11.7	14.4	12.5	246
Other expenses					
Less than \$1 million	28.7	55.5	70.9	44.0	107
\$1 million to \$10 million	46.6	58.5	47.7	51.1	183
\$10 million to \$50 million	58.7	41.8	56.0	51.8	107
\$50 million to \$200 million	76.5	82.8	31.9	63.5	41
\$200 million to \$500 million	70.0	66.5	61.6	66.0	6
All corporate foundations	66.1	70.4	48.4	61.0	444
Other professional fees					
Less than \$1 million	50.6	22.0	5.5	32.0	103
\$1 million to \$10 million	11.1	7.6	8.4	9.0	182
\$10 million to \$50 million	14.9	16.1	18.7	17.8	109
\$50 million to \$200 million	13.3	8.6	14.3	11.6	42
\$200 million to \$500 million	8.8	10.9	15.0	11.6	6
All corporate foundations	13.7	10.4	14.6	13.0	442

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Data are for foundations that reported compensation, other professional fees, or other expenses for all three years and had a charitable administrative expense value greater than zero. Compensation includes costs related to the foundation's charitable mission and excludes investment-related expenses. No corporate foundation with assets of \$500 million or more met these criteria. Data may not sum to totals because of rounding.

Table A.2.4. Compensation and Other Expenses as a Percentage of Charitable Administrative Expenses: Community Foundations by Asset Group, 2001, 2002, and 2003

Type of expense and asset group	2001	2002	2003	Average 2001–03	N
Compensation					
\$1 million to \$10 million	26.3	37.1	35.3	31.3	51
\$10 million to \$50 million	25.9	24.6	28.9	25.1	112
\$50 million to \$200 million	36.7	42.1	50.7	43.0	46
\$200 million to \$500 million	36.0	35.7	35.7	35.7	21
\$500 million or more	43.1	43.3	44.5	43.6	11
All community foundations	35.4	36.8	40.0	37.0	241
Other expenses					
\$1 million to \$10 million	59.9	44.4	48.5	53.3	51
\$10 million to \$50 million	63.1	57.9	59.4	57.1	112
\$50 million to \$200 million	44.8	35.7	28.2	35.3	46
\$200 million to \$500 million	53.8	58.0	37.3	49.2	21
\$500 million or more	32.1	34.9	33.5	33.6	11
All community foundations	47.9	46.3	39.2	43.7	241

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Notes: Data are for foundations that reported compensation or other expenses for all three years and had a charitable administrative expense value greater than zero. Compensation includes costs related to the foundation's charitable mission and excludes investment-related expenses. No community foundation with assets of less than \$1 million met these criteria. Data may not sum to totals because of rounding.

22 What Drives Foundation Expenses and Compensation?



Foundation Operating Characteristics and Charitable Administrative Expenses

Foundations are frequently asked how much they spend on administrative activities relative to their grantmaking and programmatic activities. 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 and over time (box 3.1).

This chapter examines how operating characteristics and activities affect charitable administrative expense ratios for three types of foundations and for various sizes of “giving

Box 3.1. 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 grants, which account for the lion’s share of this key line item for most foundations, and grant- and program-related administrative expenditures. Qualifying distributions can also include program-related investments, set asides, and amounts paid to acquire assets for charitable purposes; these three components combined, however, represent only a small portion (roughly 2 percent) of qualifying distributions.

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.

This chapter looks at the following characteristics:

- amount of giving
- employment and number of staff
- geographic scope of giving
- foundation establishment period
- donor-family involvement in the foundation—that is, “family foundations”
- endowed foundations versus those without a significant asset base—that is, “pass-through” foundations
- direct charitable activities—that is, programs carried out by a foundation
- grants to individuals—that is, scholarships, fellowships, prizes, and so on
- program-related investments—that is, loans for charitable activities
- maintenance of a web site

groups” according to the total amount of grants paid. The analysis examines the median ratio (the middle value) of charitable administrative expenses to qualifying distributions for each type of foundation and giving group, using a three-year average (see report appendix, page 67).¹

Independent Foundations

Of the 10,000 larger foundations studied, 8,876 (89 percent) are independent foundations including family foundations. This group’s charitable administrative expenses represent 8 percent of qualifying distributions. That said, no single percentage applies broadly to all independent foundations since not all foundations conduct their grantmaking and other charitable activities in the same way and therefore incur different levels of expense. Indeed, many (24 percent) report no expenses, while others—especially those with large staffs and complex programs—have significant expenses.

This section focuses on how different operating characteristics of independent foundations affect the ratio of charitable administrative expenses to qualifying distributions over time. Among the operating characteristics studied were employ-

ment of staff, number of paid staff, geographic scope of giving, direct charitable activities, grants-to-individuals programs, maintenance of a web site, program-related investments, donor-family involvement in the operation of the foundation, and endowment versus pass-through status of the foundation.

Influence of Paid Staff

Employing staff was the single most important factor influencing charitable administrative expense levels of independent foundations. Yet, only about a quarter of the independent foundations studied have paid staff (box 3.2). Most foundations rely on individual and institutional board members—both paid and unpaid.

As figure 3.1 illustrates, the median expense-to-qualifying distribution ratio for staffed foundations contrasts sharply with that of unstaffed foundations. Staffed foundations spend substantially larger portions of their qualifying distributions on charitable administrative expenses in each year. On average between 2001 and 2003 median charitable administrative expenses were nearly 8 percent of qualifying distributions for

Box 3.2. Staffing Configurations of Independent Foundations

Foundations administer grants and programs through the efforts of a mix of people, including paid staff; consultants; representatives from banking, law, and investment firms; and compensated and uncompensated board members. Only about a quarter (2,364) of the independent foundations studied report having paid staff for the 2001–03 period. This leaves nearly three-quarters (6,512) that operate exclusively through the efforts of board members.

The majority of unstaffed foundations (4,721, or 53 percent) operate without paying compensation to anyone. Of the 8,876 independent foundations studied, 816 (9 percent) compensate individual board members only, while 740 (8 percent) compensate banks and other institutional trustees only. Another 229 foundations (3 percent) compensate both individual board members and institutional trustees rather than paying staff to operate the foundation.

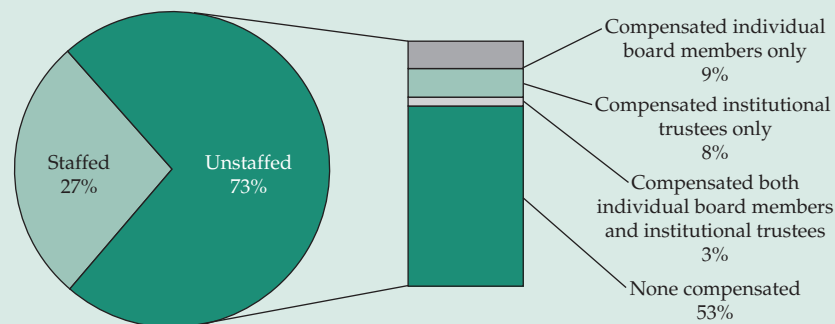
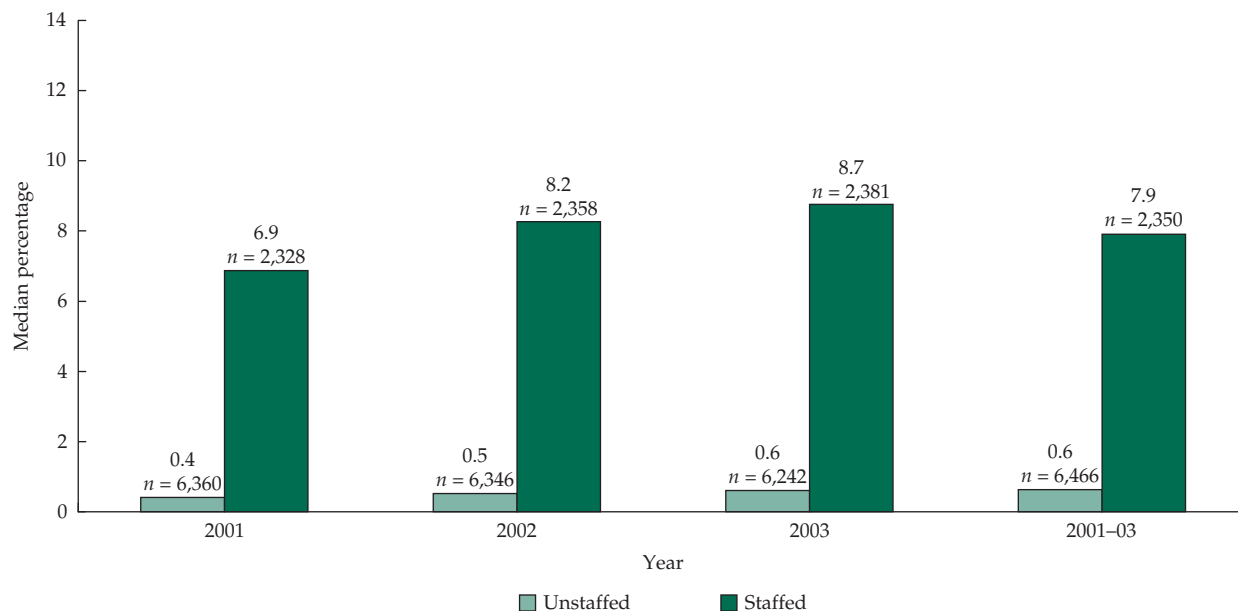


Figure 3.1. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001, 2002, and 2003: Staffed and Unstaffed (Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

foundations with staff and less than 1 percent for those without staff.

For both staffed and unstaffed foundations, median ratios increased between 2001 and 2003. This is an anomalous period for foundation finances. Fueled by soaring asset values of the late 1990s and exceptionally generous giving in response to the 9/11 tragedy, foundation giving peaked in 2001. At the same time, three consecutive years of stock market losses (2000-02) cut deeply into foundation assets.² Since giving and payout are driven by asset valuation, many foundations reduced their giving in 2002 and 2003. Some used their excess distributions carry-over from 2001 and earlier years to meet their payout requirement. In general, foundations were slow to adjust their administrative expenses, perhaps because no one knew how long the downturn would last. When giving levels fall but expenses do not, the charitable administrative expense portion of qualifying distributions rises, as it did in 2002.

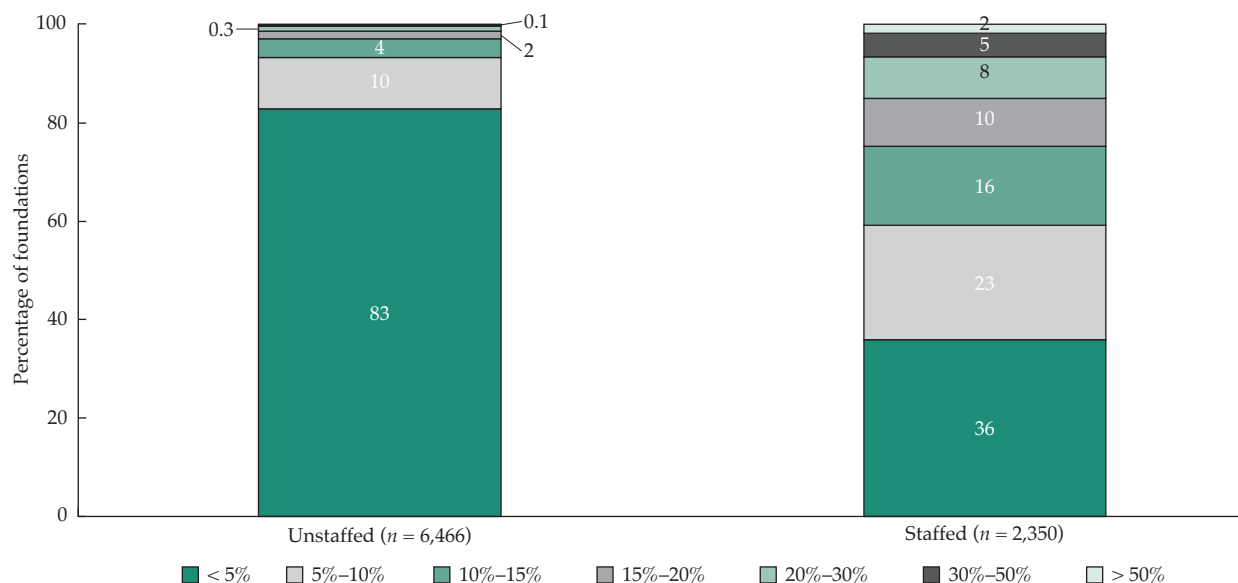
Smaller foundations studied report somewhat higher median expense-to-qualifying distribution ratios than larger foundations do (see figure A.3.1 in this chapter's appendix). The contrast

is particularly sharp for foundations with staff. For foundations that give less than \$1 million, charitable administrative expenses represent 9 percent of qualifying distributions, compared with 6 percent for those that give over \$50 million. In the middle—staffed foundations that give between \$1 million and \$50 million—the median ranges between 7 and 8 percent. Unstaffed foundations exhibit similar patterns, but the ratios are tiny, averaging 1 percent or less. These patterns point to economies of scale at work.

While the median ratios represent the most typical expense levels for staffed and unstaffed foundations studied, figure 3.2 illustrates the range of ratios. In general, unstaffed independent foundations have lower expense ratios than staffed foundations. For more than 80 percent of unstaffed foundations, these ratios are less than 5 percent. Less than 1 percent of these foundations (27), on average, report ratios above 30 percent.

Even for staffed foundations, the most common expense ratio is less than 5 percent. Thirty-six percent of staffed foundations have expense ratios under 5 percent, and 75 percent have ratios of less than 15 percent. About 7 percent (or

Figure 3.2. Distribution of Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staffed and Unstaffed (Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

156 staffed foundations) spend more than 30 percent of their qualifying distributions, on average, for charitable administrative expenses.

Most independent foundations studied have an expense-to-qualifying distribution ratio of less than 10 percent. Indeed, 93 percent of unstaffed foundations and 59 percent of staffed foundations are at this level for 2001–03 (see figure A.3.2 in chapter appendix). The proportion of unstaffed foundations with ratios of less than 10 percent exceeds 90 percent in each year. In contrast, the proportion of staffed foundations at this level fell, from 62 percent in 2001 to just below 55 percent in 2003. This decline reflects the overall upward trend in expense-to-qualifying distribution ratios for the period. 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.

Conversely, the number of foundations studied with expense ratios greater than 30 percent increased over this period (see figure A.3.3 in chapter appendix). While 6 percent of staffed foundations (143) had expense ratios over 30 percent in 2001, nearly 10 percent (228 foundations) did in 2003. Similarly, unstaffed foundations with these high ratios increased from less than 1 per-

cent to more than 2 percent—or from 29 foundations to 137. Increases are sharpest at the highest end of the distribution (above 50 percent).

Much of this growth is due to carryover. By law, foundations that pay out more than the required 5 percent minimum in a tax year can apply their excess charitable distributions to any of the following five years.³ For some foundations—mainly smaller unstaffed foundations—carryover substituted for new giving in 2002 or 2003.⁴ Using carryover can distort the expense ratio, since carryover is not added into the sum of qualifying distributions on Form 990-PF. Thus, even if administrative expenses do not increase for a year in which carryover was applied, the ratio of administrative expenses to qualifying distributions increases.⁵

Relatively few independent foundations (183) report expense ratios of 30 percent or more, on average, between 2001 and 2003. Of these, three-quarters report expenses ratios of at least 30 percent in all three years. Presumably, these foundations consistently engaged in high-cost activities or practices, including direct charitable activities,⁶ while the other quarter incurred one-time costs or substantially reduced their giving in 2002 and 2003. (For more information, see box 3.3.)

Box 3.3. Charitable Administrative Expense Ratios in Large Staffed Independent Foundations

The charitable administrative expense portion of qualifying distributions for large staffed independent foundations—those that give at least \$1 million—ranges from less than 10 percent (for 65 percent of these foundations) to over 30 percent (for 5 percent). Among the 156 staffed foundations that have ratios over 30 percent (see figure A.3.3. in chapter’s appendix), 51 gave at least \$1 million in each year. Of these, 16 (31 percent) have ratios of at least 30 percent in all years. To understand the factors that drive consistently higher-than-average ratios for these few large foundations, we reviewed their Forms 990-PF for 2001, 2002, and 2003. In addition to having paid staff, two factors were identified:

1. **Direct charitable activities (DCAs).** Ten of the 16 foundations (63 percent) engaged regularly in direct charitable activities. These activities range from conducting research (environmental, health care, and health care policy) and educational programs (environmental, international) to providing health care services and maintaining facilities, such as a conference center, a museum, or a theater. DCAs represent at least one-third of charitable administrative expenses for all 10 foundations in each year; for more than half of them it represents at least 50 percent. While there is no way to correlate DCA costs with specific

expense components itemized on the Form, compensation accounts for at least 50 percent of total charitable administrative expenses for 7 of the 10 foundations in all years.

Two foundations for which DCAs seem to substitute in part for giving between 2001 and 2003 started to file Form 990-PF as operating foundations after the study period (though they continued to make grants). This suggests a continuum in foundation styles—from purely grant-making to purely operating—with strong implications for expense patterns.

2. **Use of carryover.** All 16 foundations gave at least \$1 million in each year. In addition to grants, 11 foundations (69 percent) used some of their excess distributions from earlier years to meet a portion of their payout requirement in at least two of three study years, and four foundations used carryover in one year.^a Presumably, these foundations had paid out at high levels in past years relative to their asset values. Of the 10 foundations with DCAs mentioned above, most applied some carryover between 2001 and 2003.

a. All the foundations that used their excess distributions carryover to help meet their payout requirement in a particular study 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.

In sum, staff costs drive up charitable administrative expense ratios. From 2001 to 2003, on average, 59 percent of staffed foundations in this study have ratios of less than 10 percent. However, the proportion of staffed foundations with ratios in categories higher than 10 percent increases during this period as giving levels decline. The proportion of foundations with ratios above 30 percent rises partly because foundations carry over excess distributions from past years to meet some of their payout requirement. In years when foundations apply carryover, charitable administrative expenses may represent a relatively high proportion of qualifying distributions, so only a multiyear analysis accurately depicts foundations’ spending patterns.

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

Influence of Staff Size

The number of staff strongly affects expense-to-qualifying distribution levels of staffed independent foundations, as table 3.1 shows. As the number of staff increases, so does the median ratio. For example, for foundations that give between \$1 million and \$10 million, that ratio rises from 3 percent if there is only one person on staff to 29 percent if there are 15 to 50.

Table 3.1. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staff Size (Staffed Independent Foundations)

	1 Staff		2–3 Staff		4–14 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	Number of foundations
Less than \$1 million	6	566	12	432	12	205	n/a	2	n/a	0	1,205
\$1 million to \$10 million	3	202	7	328	9	418	29	13	n/a	2	963
\$10 million to \$50 million	2	8	3	15	7	81	14	39	n/a	1	144
More than \$50 million	n/a	0	n/a	1	1	9	5	14	15	14	38
All	5	776	9	776	9	713	14	68	16	17	2,350

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

n/a = fewer than three foundations in the category.

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 4 to 14 staff members have ratios of roughly 12 percent when giving is under \$1 million but 1 percent when giving exceeds \$50 million.

Foundations that give the most tend to have the largest staffs. Indeed, for the 38 foundations that give over \$50 million, 13 employ more than 100 staff. Median ratios for these very large foundations range from 4 to 42 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 single measure.

Employing more staff increases charitable administrative expense levels over the study years (figure 3.3). The median ratio rose for all staff sizes between 2001 and 2003, but it rose even more for foundations with larger staffs. Foundations with 50 or more staff have ratios of 18 percent in 2003, compared with 13 percent in 2001. In contrast, median ratios for foundations reporting two to three staff increase more modestly—from 8 percent to 10 percent.

Why? One possible explanation for the more rapid rise of median expense levels among foundations with the biggest staffs is that these funders gave unusually large sums of grant money in 2001 and then either sharply cut funding

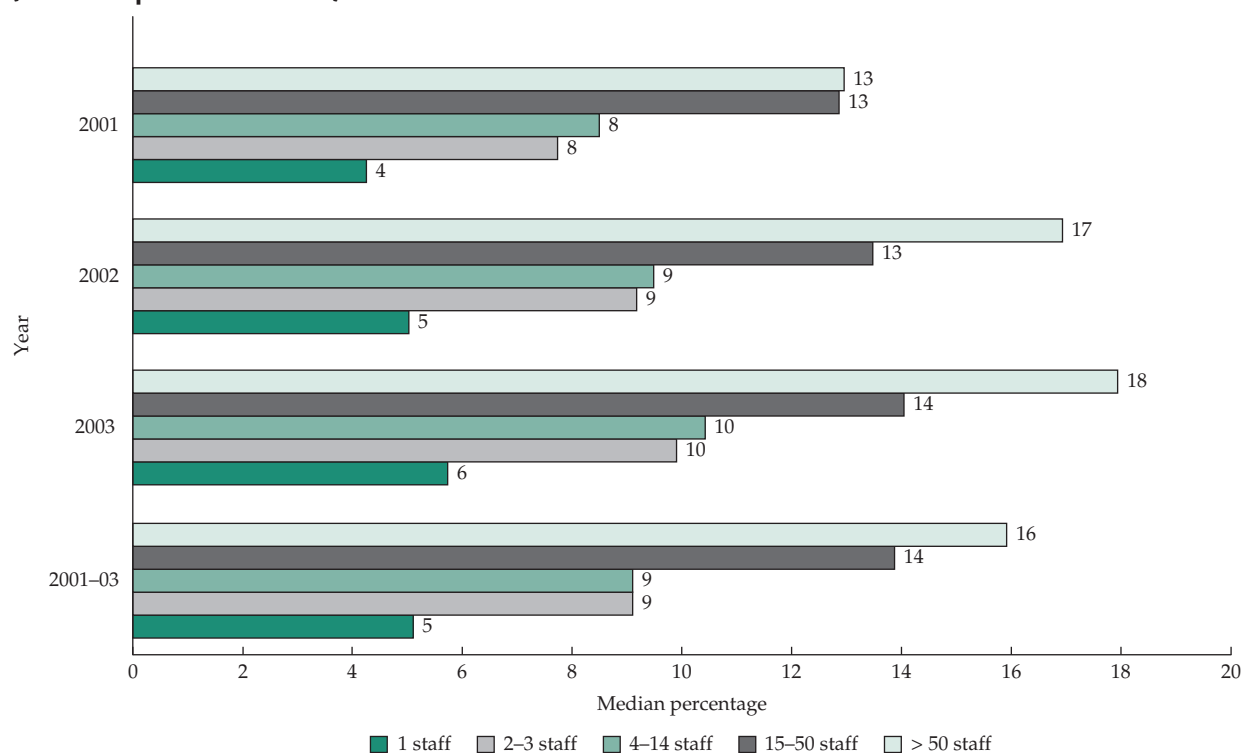
in 2002 and 2003 (as their assets fell) or returned to normal giving levels. Here too, the use of excess distribution carryover could have come into play.

Influence of Geographic Scope of Giving

Geographic scope of giving also strongly influences charitable administrative expense levels (table 3.2). Most staffed independent foundations in this study give locally.⁷ Based on three-year patterns, 1,860 (81 percent) primarily give only locally or within their state, 313 (14 percent) give nationally, and 111 (5 percent) give internationally.⁸

Foundations that give internationally or globally report a much higher median expense-to-qualifying distribution ratio (16 percent) than those that give only locally (7 percent) or nationally (9 percent). International giving raises expense levels for foundations across giving groups, but foundation size counts too. Median ratios of international givers decrease with giving levels, from 30 percent for the 20 foundations giving the least to 13 percent for the 8 foundations giving the most. These economies of scale hold for local and national givers as well, but the differences in the ratios of the smallest and largest foundations are more modest. Median ratios for international givers overall increased from 16 percent in 2001 to 18 percent in 2003. These ratios also increased notably for national givers, while the increase for local givers was small.

Figure 3.3. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001, 2002, and 2003: Staff Size (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

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 such as travel, communications, and consulting cost more. Foundations that make grants directly overseas may have seen costs escalate after the September 11, 2001, terrorist attacks as

the regulatory environment for making grants to non-U.S. organizations tightened, due diligence requirements for screening grantees became more rigorous, and security needs increased.⁹ Throughout this period, small foundations, in contrast to medium and large foundations, bear the heaviest financial burden in international grantmaking.¹⁰

Table 3.2. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001-03: Geographic Scope (Staffed Independent Foundations)

Giving group	Local Giving		National Giving		International Giving	
	Median %	Number of foundations	Median %	Number of foundations	Median %	Number of foundations
Less than \$500,000	9	595	13	67	30	20
\$500,000 to \$1 million	8	412	12	51	17	16
\$1 million to \$5 million	7	628	8	117	15	36
\$5 million to \$10 million	6	122	8	28	10	13
\$10 million to \$50 million	7	87	10	36	13	18
More than \$50 million	4	16	7	14	13	8
All	7	1,860	9	313	16	111

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

Influence of Direct Charitable Activities

Whether foundations achieve their missions solely by grantmaking or through a mix of grants and operating programs strongly affects their expenditure patterns (figure 3.4). Foundations that engage in direct charitable activities (sometimes referred to as DCAs) have more than twice the proportion of charitable administrative expense-to-qualifying distributions as others (18 percent versus 7 percent). Activities that the independent foundations reported include operating charitable facilities, providing charitable services, conducting research, holding fellowship and awards programs, giving grantees technical assistance, running conference sites for nonprofit use, and organizing conferences and other events.¹¹

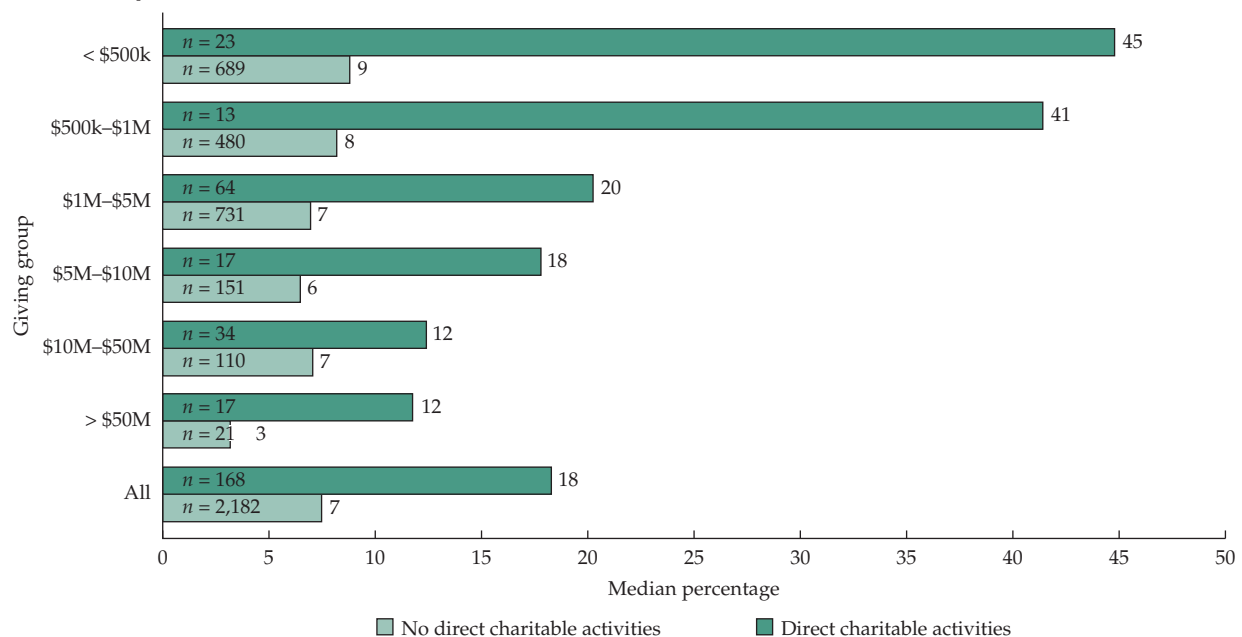
Only 168 of the 2,350 staffed independent foundations studied regularly reported direct charitable activities.¹² Not surprisingly, most of these foundations have relatively large staffs. For example, three-fifths employ at least four staff, and close to one-third employ at least 15 staff. Also, of the 17 independent foundations with 50 or more staff, 76 percent reported such activities.

Charitable administrative expense-to-qualifying distribution ratios decline sharply as giving increases, from a median of 40 percent or more for foundations that give less than \$1 million to 12 percent for those that give over \$10 million. For the smallest givers, it seems, direct charitable activities represent a major portion of their charitable work—often larger than their grantmaking—while these activities are a more modest share of larger foundations’ diversified charitable “portfolios.”

Although foundations in all size groups conduct direct charitable programs, the largest foundations are much more apt to do so: 28 percent (51) of the foundations that give \$10 million report DCAs, compared with 3 percent of those that give less than \$1 million. The relatively high occurrence of DCAs among the largest foundations suggests the resource- and staff-intensive nature of these activities.

For 35 of the 117 foundations that conduct DCAs regularly and give less than \$10 million, charitable administrative expenses represent more than 50 percent of qualifying distributions. While these foundations are not classified legally as operating foundations, they appear to function like operating foundations. For example, some of them

Figure 3.4. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Direct Charitable Activities (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

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maintain library collections or resource centers, others conduct educational programs, and a few maintain museum collections.

Interestingly, median expense levels grew for staffed foundations with DCAs—from 16 percent in 2001 to 19 percent in 2003. Proportionally, this represents one of the largest percentage point increases for any of the operating characteristics examined in this study. Apparently, foundations’ support for their own operating programs did not decline even as giving decreased. Instead, during a period of fiscal constraint, foundations may have ramped up their operating activities, such as capacity-building programs for nonprofits or provision of free office space, in lieu of making grants.¹³

Other Factors that Increase Charitable Administrative Expense Ratios

Three other factors appear to raise the ratio of charitable administrative expenses to qualifying distributions: grants-to-individuals programs, program-related investments, and maintenance of a web site. While the majority of independent foundations do not engage in these practices, larger foundations with paid staff often do.

As table 3.3 indicates, foundations studied that engage in these activities have median ratios that are roughly twice as high as foundations that do not. Economies of scale, however, tend to reduce the proportion of qualifying distributions that larger foundations spend on these activities. Along with these general patterns, a few additional things should be noted for each characteristic (see figures A.3.4–3.6 in chapter appendix for more detail).

Grants-to-individuals programs. Most foundations studied make grants mainly or exclusively to nonprofit organizations, although a few (158, or less than 7 percent) make grants to individuals.¹⁴ These grants often take the form of scholarships, fellowships, awards, or prizes. The higher expense levels associated with making grants to individuals reflect the resource-intensive nature of such an activity. Operating a grants-to-individuals program is likely to involve a larger staff to manage the program and oversee large numbers of grant applications and grants, and also higher costs associated with peer review, advisory committees, outreach and communications efforts, and compliance with legal and reporting requirements.¹⁵ 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.¹⁶

Maintaining a web site. Foundation communications efforts aimed at informing the public about their programs and results often represent a significant investment. For lack of a more comprehensive measure, we included web sites in the analysis as an indicator of larger communications and outreach efforts. While the presence of web sites appears to be associated with higher expense levels, this factor by itself is unlikely to affect 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 financial burden is heaviest for the smallest foundations, but

Table 3.3. Other Factors with a Positive Effect on Administrative Expense Ratios, 2001–03

	Median Expense Ratios for Foundations with or without This Activity		Range of Median Expense Ratios for Foundations with This Activity, by Foundation Giving Size	
	With	Without	Less than \$500,000	Over \$50 million
Operates a grants-to-individuals program	14%	8%	17%	6%
Maintains a web site	12%	6%	17%	7%
Makes program-related investments	12%	8%	a	a

Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

a. Foundations that make program-related investments are divided into two giving groups. For those under \$5 million, the median ratio is 13 percent; for those over \$5 million, the ratio is 11 percent.

small foundations are nevertheless increasing their presence on the web at a fast pace.¹⁷

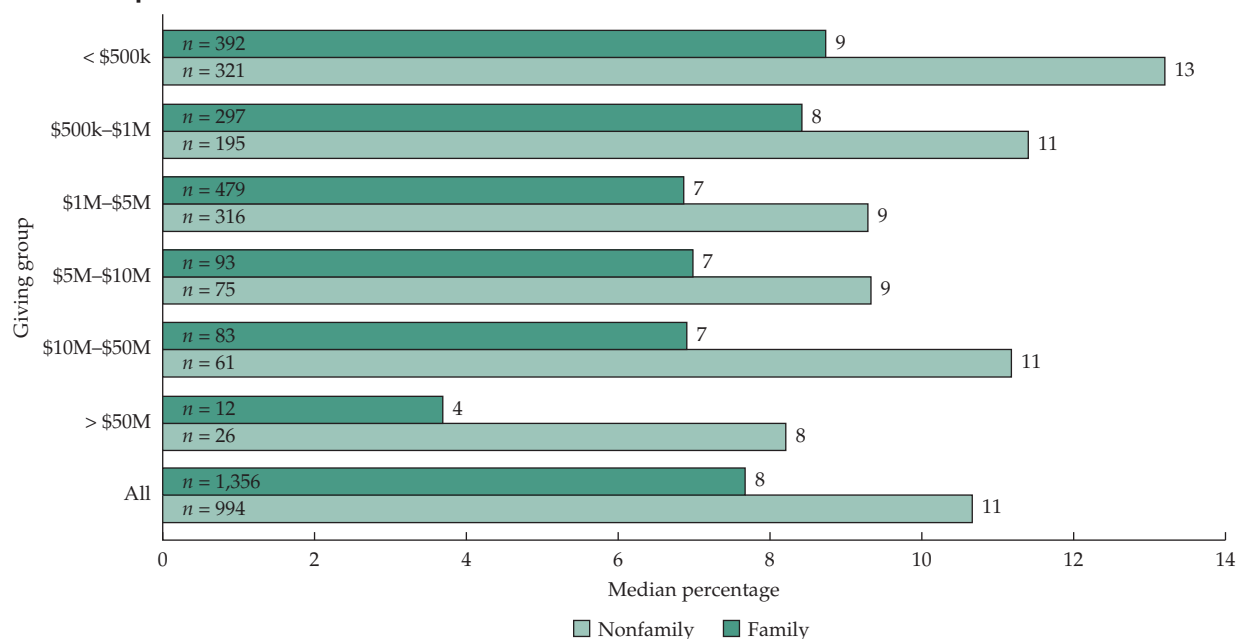
Program-related investments. In addition to grantmaking and conducting programs, some foundations achieve their missions by making loans and investments in the charitable programs of nonprofit organizations and profit-making entities.¹⁸ These activities are called program-related investments (also known as PRIs). PRIs represent one tiny component of qualifying distributions. Between 2001 and 2003, expenditures for loans and other PRIs for studied foundations totaled \$1.1 billion, on average, or 0.7 percent of total qualifying distributions. The higher median expense-to-qualifying distribution ratios of foundations that make PRIs reflect the labor-intensive nature of such transactions and the need for staff with special financial or banking 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. As a result, the interaction required between foundations and their loan recipients is more frequent, more long term, and often more intensive than interactions between foundations and their grantees.

Influence of Donor-Family Involvement

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.¹⁹ Of the 8,876 independent foundations studied, 5,350 (60 percent) are family foundations. As foundations become larger and more professionalized, family and donor involvement typically decreases. Only 32 percent of the very largest foundations are family foundations. Donor or family involvement is one of the few characteristics that notably reduces the charitable administrative expense-to-qualifying distribution ratio for staffed foundations (figure 3.5). This pattern is consistent across giving groups.

The lower median expense-to-qualifying distribution ratios for family foundations compared to nonfamily foundations suggests that family members hold staff-related costs down by providing no- or low-cost labor for administering grants and other programs. Some family members also contribute office space and administrative services, such as legal and accounting, thereby lowering expenses.

Figure 3.5. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Family versus Nonfamily (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

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Influence of Endowed versus Pass-Through Status

The vast majority of staffed independent 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 foundation from the donor(s) or family-owned businesses. Foundations are considered pass-throughs if their 2001–03 giving represents more than 25 percent of the value of their assets, or if they hold assets of less than \$100,000. Of the 8,876 independent foundations studied, 1,712 (19 percent) qualify as pass-through foundations.

Only 233 staffed foundations (10 percent) are pass-throughs, and most are relatively small, with giving less than \$5 million. More than two-thirds of staffed pass-through foundations are family foundations, compared with 57 percent of endowed foundations.

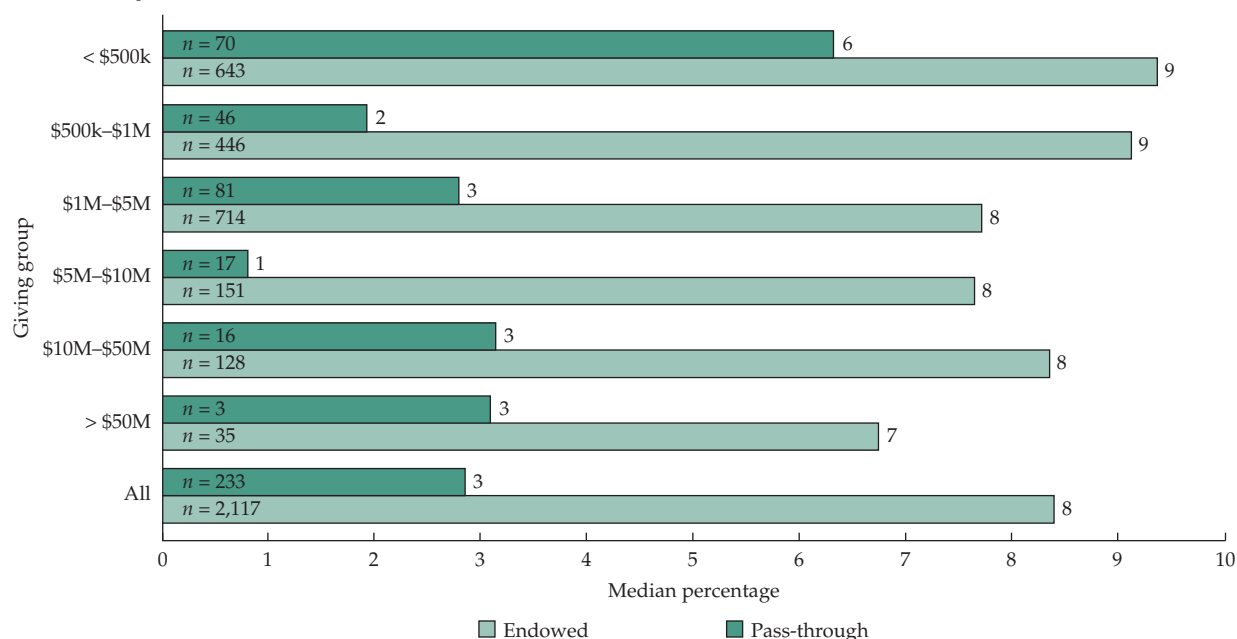
Similar to donor-family involvement, pass-through status tends to lower expense levels. As figure 3.6 shows, the median ratio for pass-through foundations is 3 percent versus 8 percent for endowed foundations.

The higher expense levels associated with endowed foundations compared with pass-throughs suggest that these foundations employ larger, more specialized staffs. In fact, among foundations with the most staff, nearly all are endowed.²⁰ Since pass-through foundations have no permanent corpus, they may not invest heavily in staff and other long-term administrative infrastructure. In general, they also have smaller grantmaking programs than endowed foundations and are less likely to operate their own charitable programs. Finally, a larger proportion of pass-throughs are family foundations and therefore likely to benefit more from donor and donor-family involvement.

Summary

For independent foundations in the study, employing staff is the single most important factor affecting charitable administrative expenses. Among staffed foundations, employing more staff, engaging in international grantmaking, conducting charitable programs and activities, making program-related investments, and maintaining a web site (a possible indicator of a larger

Figure 3.6. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Endowed versus Pass-Through (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

communications effort) further raise expenses, but the impact is greater for smaller than for larger givers. Making grants to individuals also exerts an upward pressure on charitable expense ratios. By contrast, donor-family involvement and operating as a pass-through foundation tend to lower charitable expenditure ratios.

These findings confirm similar patterns that were found for 2001. All the characteristics cited as influential and the effect they had on the charitable administrative expense portion of qualifying distributions are the same. Compared with the one-year analysis, the median ratios reported for each characteristic are slightly higher in the three-year analysis. But these small changes do not alter the major findings of this study: differences in the operations and activities of independent foundations strongly affect spending patterns. Staffing, geographic scope, and direct charitable activities—as well as a handful of lesser characteristics—differentiate independent foundations and influence their spending patterns over time.

Corporate Foundations

Corporate foundations are subject to the same minimum 5 percent payout requirement as independent foundations, and they must report identical categories of charitable administrative expenses that count toward qualifying distributions. Yet corporate foundations differ from independents structurally and operationally, and these differences affect their spending patterns. As noted earlier, the relationship of these foundations with their parent companies often provides them with access to “free” administrative, technical, and staffing support (and the salaries and benefits associated with these staff) not available to independents. This support, in turn, is reflected in their comparatively low expense-to-qualifying distribution ratios.

For the 807 corporate foundations studied, charitable administrative expenses represent 7 percent of the total qualifying distributions that meet the payout requirement. This aggregate percentage, however, overstates the expense ratios of a large majority of corporate foundations, while understating those of others.

This section examines how certain operating characteristics of corporate foundations influence the ratio of charitable administrative expenses to qualifying distributions over time. Compared with independent foundations, fewer characteristics show a clear relationship to expenses. This finding underscores the difficulty in determining actual corporate foundation expenses, since costs paid by the parent company are not reported on Form 990-PF. Still, if foundations directly pay for staff, their cost ratios are higher. Other factors examined that have a bearing on expense ratios are staff size, direct charitable activities, and geographic scope of giving.

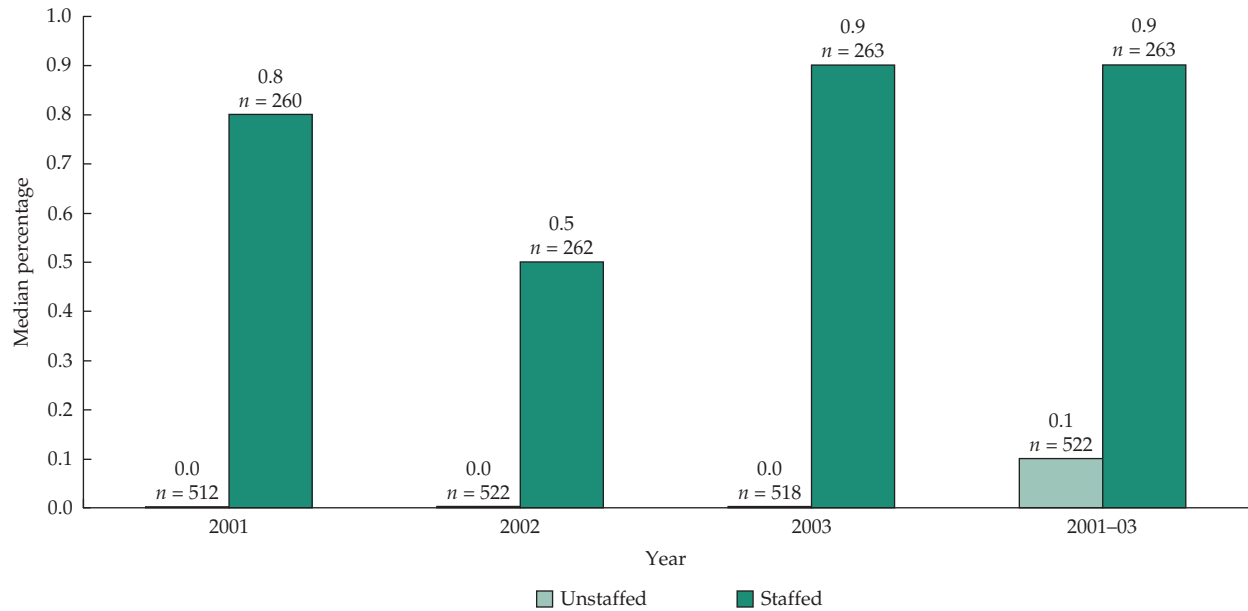
Influence of Paid Staff

Employing staff affects the charitable administrative expense patterns of corporate foundations, as figure 3.7 shows. Only about one-third of the 807 corporate foundations studied, however, report paid staff. Presumably, two-thirds of corporate foundations are staffed by employees of the parent companies, which bear the cost of compensating these individuals.

Staffed foundations have higher expense-to-qualifying distribution ratios than unstaffed foundations in all years. Between 2001 and 2003, on average, median charitable administrative expenses represent about 1 percent of qualifying distributions for staffed foundations and 0.1 percent for those without staff. Compared with independent foundations, ratios are lower for both staffed and unstaffed corporate foundations and median expense levels vary less over time. Yet the financial flows between parent companies and corporate foundations make it difficult to compare patterns of corporate foundation staffing and compensation with those of independent and community foundations.

Foundation size affects the expense patterns of corporate foundations (figure 3.8), especially those with paid staff. Unlike independent foundations, the largest staffed corporate foundations have the highest median expense-to-qualifying distribution ratio. Regardless of size, median ratios are low: 0.7 percent for foundations that give less than \$1 million, 1.0 percent for those that give between \$1 million and \$5 million, and 1.3 percent for those that give over \$5 million.

Figure 3.7. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001, 2002, and 2003: Staffed and Unstaffed (Corporate Foundations)

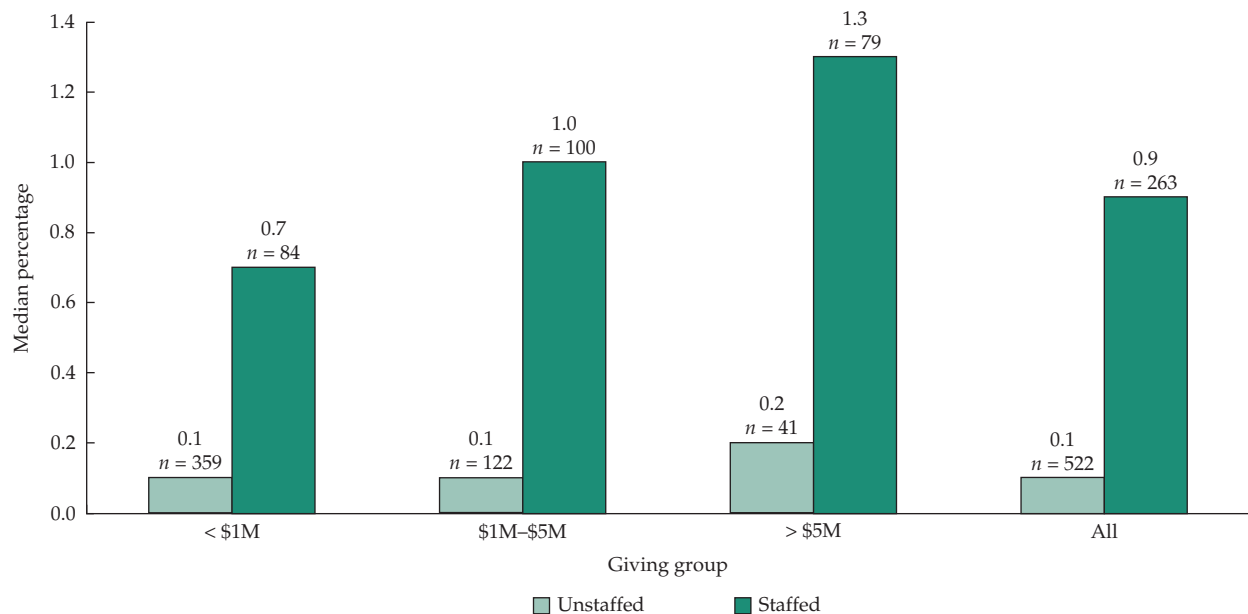


Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

While figures 3.7 and 3.8 illustrate median (middle-level) charitable administrative expense-to-qualifying distribution ratios, figure 3.9 shows the full distribution of corporate foundation ratios for this period. In general, unstaffed

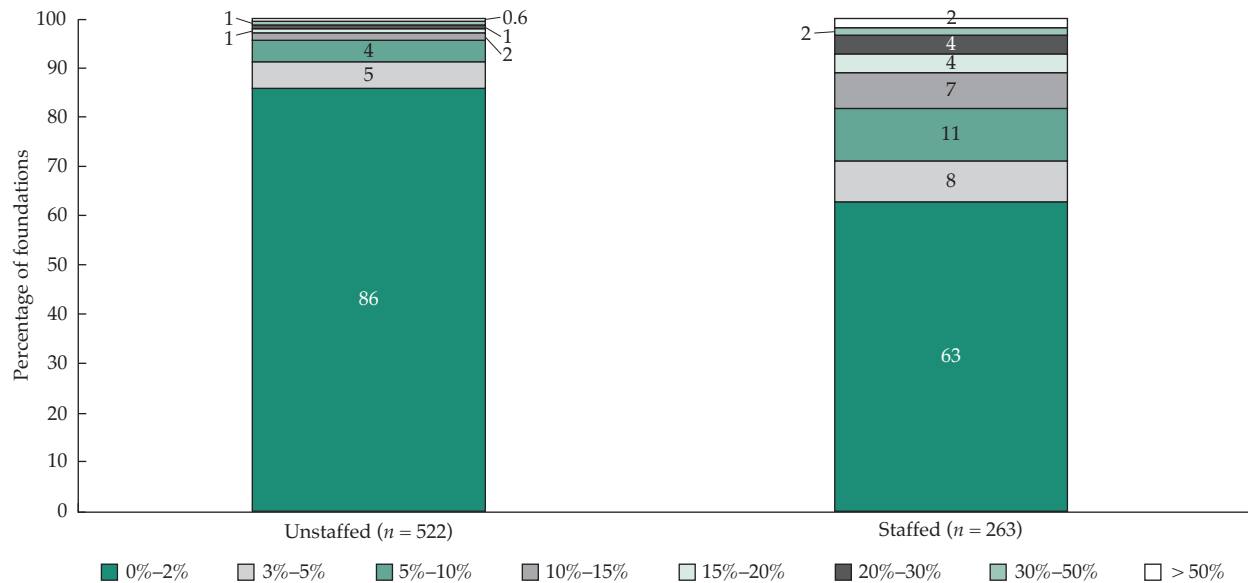
foundations have lower expense ratios than staffed foundations. Eighty-six percent of unstaffed foundations have ratios of less than 2 percent. Only 5 percent report ratios above 10 percent.

Figure 3.8. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001-03: Staffed and Unstaffed (Corporate Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

Figure 3.9. Distribution of Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staffed and Unstaffed (Corporate Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

For staffed foundations, the most typical expense ratio also is less than 2 percent. Sixty-three percent of staffed foundations spend less than 2 percent of their qualifying distributions on charitable administrative expenses, and 82 percent spend less than 10 percent.

Only a handful of corporate foundations (16) report expense ratios of 30 percent or greater. Of these, more than half report ratios of at least 30 percent in each year. Interestingly, a large majority of the foundations that consistently spend more than 30 percent of their qualifying distributions on charitable administrative expenses conduct their own charitable programs. As discussed later, direct charitable activities are associated with high expense ratios for corporate foundations.

Influence of Staff Size

The number of staff employed has a strong effect on the expense levels of corporate foundations. As the number increases, so does the median charitable administrative expense-to-qualifying distribution ratio. For example, the median ratio of foundations giving less than \$5 million increases from 0.2 percent for those with one staff member to over 6 percent for those with four or

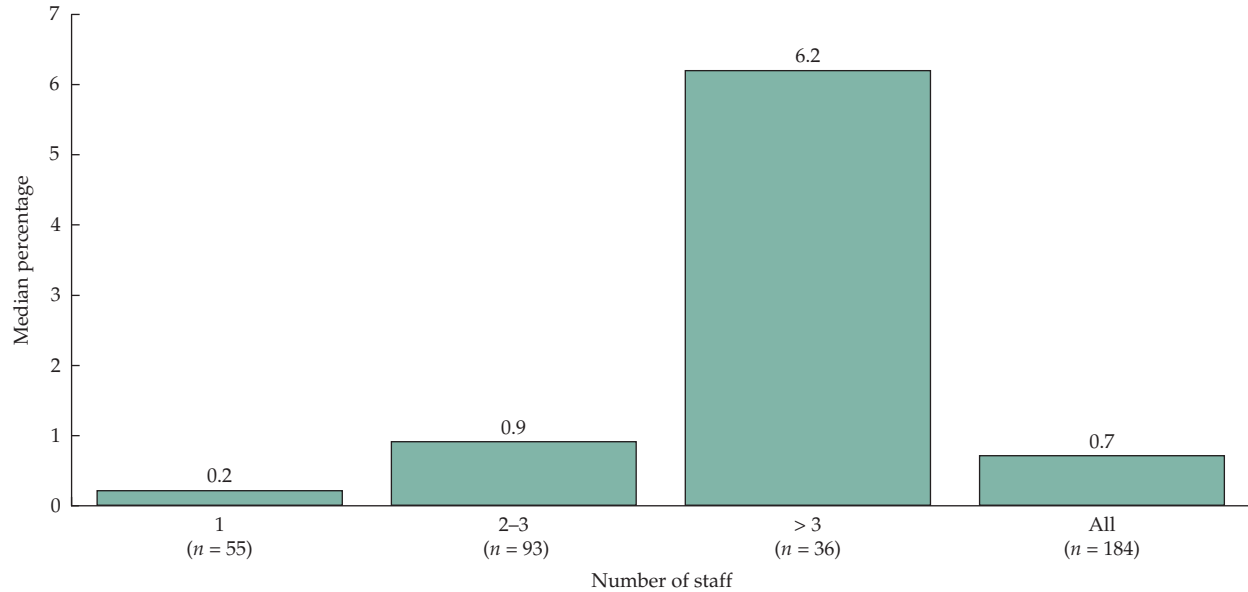
more staff members (figure 3.10), while the median ratio of foundations giving \$5 million or more increases from 0.9 percent for those with one to two staff to almost 4 percent for those with nine or more staff (figure 3.11).

In sum, corporate foundations employing staff and large numbers of staff raise the charitable administrative expense-to-qualifying distribution ratio. Increases in staff size have the greatest affect on the expense levels of smaller foundations. Still, less than one-third of foundations studied report paid staff. As noted earlier, information on the staffing patterns of corporate foundations is unreliable because these foundations are often staffed with company employees who may not be on the foundation payroll. For that reason, the remaining analyses focus on all corporate foundations rather than solely on those that report staff.

Influence of Direct Charitable Activities

Like independent foundations, corporate foundations may conduct their own programs and activities. For foundations in the study, these include walkathons and other fundraising events, career guidance and training for women and girls,

Figure 3.10. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staff Size (Corporate Foundations Giving Less than \$5M)

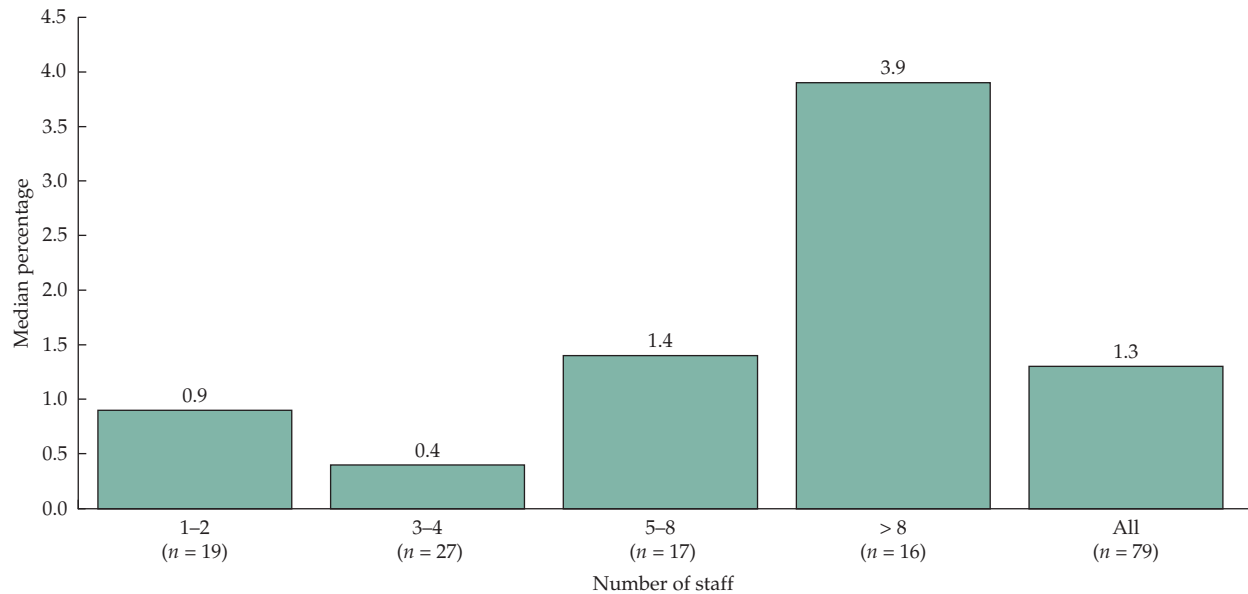


Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

technical assistance and training, production and dissemination of public information materials (e.g., related to home ownership and health), and sponsorship of public conferences and meetings.

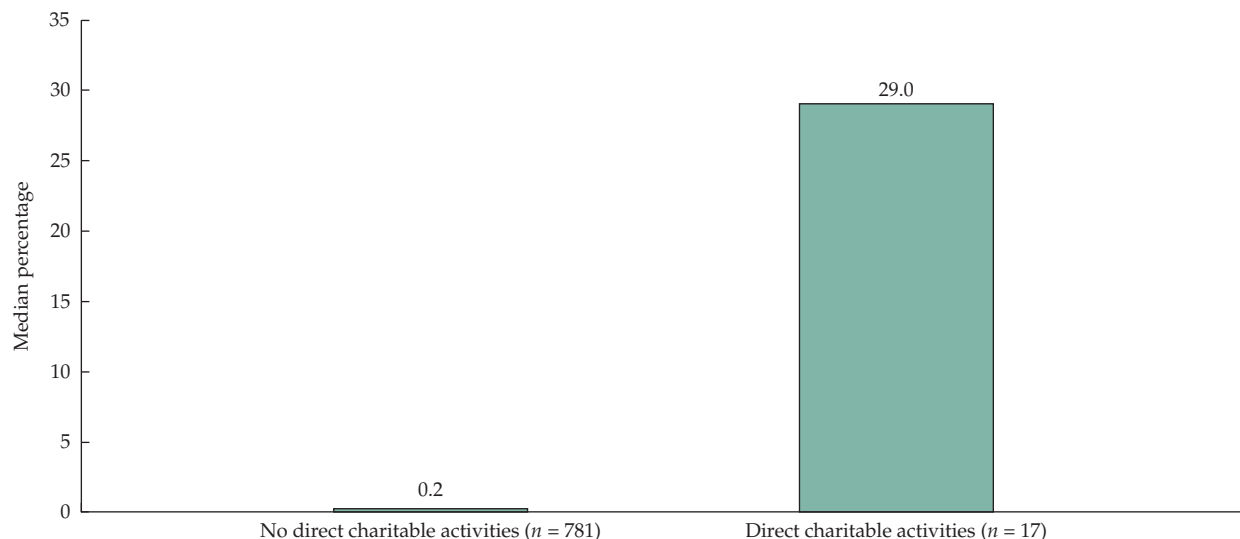
As figure 3.12 illustrates, foundations that engage in direct charitable activities have much higher median charitable administrative expense-to-qualifying distribution ratios than those that do not (29 percent versus less than 1 percent). Indeed,

Figure 3.11. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staff Size (Corporate Foundations Giving \$5M or Over)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Figure 3.12. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Direct Charitable Activities (Corporate Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

such activities raise the median ratio for corporate foundations more than any other factor examined. Not only do these foundation-administered programs often require large staffs but they also substitute in large part for foundations' grantmaking programs.

It bears noting that only 17 of the corporate foundations studied regularly engage in direct charitable activities.²¹ However, these foundations include several of the largest corporate foundations in terms of total amount of charitable administrative expenses reported.

Influence of Geographic Scope of Giving

Geographic scope of giving also influences the charitable administrative expense levels of corporate foundations. The vast majority (94 percent) of foundations studied operate locally or nationally. (This category includes foundations that make grants in areas of company operations in a few locations or across many states, or at the national level.) Only 6 percent give nationally/internationally.²²

In general, corporate foundations that give internationally spend slightly larger portions of their qualifying distributions on charitable ad-

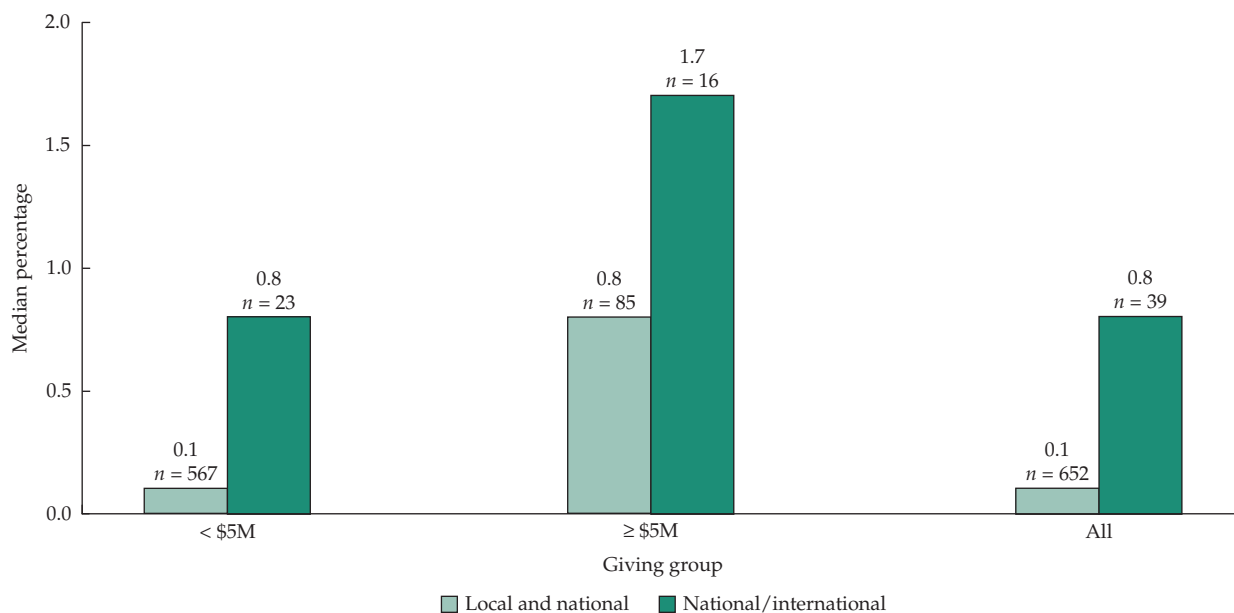
ministrative expenses than those whose giving scope is more limited (figure 3.13). International giving raises expense levels for foundations of all sizes. Large corporate givers—those giving \$5 million or more—report somewhat higher median expense ratios than smaller givers (1.7 percent versus 0.8 percent).

Although geographic scope of giving influences expense levels, median charitable administrative expense-to-qualifying distribution ratios are relatively low for corporate foundations, even for those giving internationally. Presumably, some of the higher costs associated with international grantmaking, such as travel, higher staffing levels, and overseas offices, may be covered in part or whole by the parent company or a foreign affiliate.

Summary

Corporate foundations differ markedly from other types of foundations structurally and operationally, and these differences make it difficult to compare their spending patterns. Corporate foundations are closely tied to parent companies, which often provide staff, office space, and other administrative support. Still, staff size (for foundations that directly pay for staff), direct charitable activi-

Figure 3.13. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Geographic Scope (Corporate Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

ties, and geographic scope of giving are important factors to consider when assessing the charitable expenditures of corporate foundations. Of these factors, direct charitable activities have the greatest impact on expense levels. For a few corporate foundations studied, such activities largely take the place of grantmaking programs, thereby raising the charitable administrative expense portion of qualifying distributions. The patterns identified in this analysis of three years of data confirm similar patterns that were found for only one year.

Community Foundations

Community foundations represent only 3 percent of the top 10,000 foundations, yet they account for a much larger share of resources and expenses. As discussed earlier, community foundations differ from private foundations, both operationally and in terms of federal regulations. For example, community foundations are not subject to the 5 percent payout requirement and are therefore not required to report all distributions that count toward payout. To compare the charitable administrative expense patterns of community foundations with those of independent and cor-

porate foundations, we use total “program services” (which includes grants and grant- and program-related expenses) as a proxy for qualifying distributions,²³ and the total of program services expenses minus grants as a substitute for charitable administrative expenses.²⁴

For the 317 community foundations studied, charitable administrative expenses represent 8 percent of the \$2.1 billion they spend for total program services—roughly the same share as other types of foundations. Similarly, differences in community foundations’ operations and activities translate into different expense patterns.

This section focuses on how the charitable administrative expense portion of qualifying distributions varies by operating characteristics of community foundations. Compared with independent foundations, nearly all community foundations have paid staff, are endowed, and give mainly locally. Still, a handful of characteristics show a clear and consistent relationship to expenses, notably staff size, foundation age, engagement in direct charitable activities, and presence of web sites. Because almost all community foundations have staff, the analysis does not distinguish between staffed and unstaffed foundations.²⁵

Influence of Giving Size

Foundation size has a small effect on expense levels of community foundations. Due to the relatively small number of foundations studied (317), they are divided into just two giving groups based on their average giving: less than \$3 million and \$3 million and over. More than two-thirds of the community foundations examined fall into the smaller giving group.

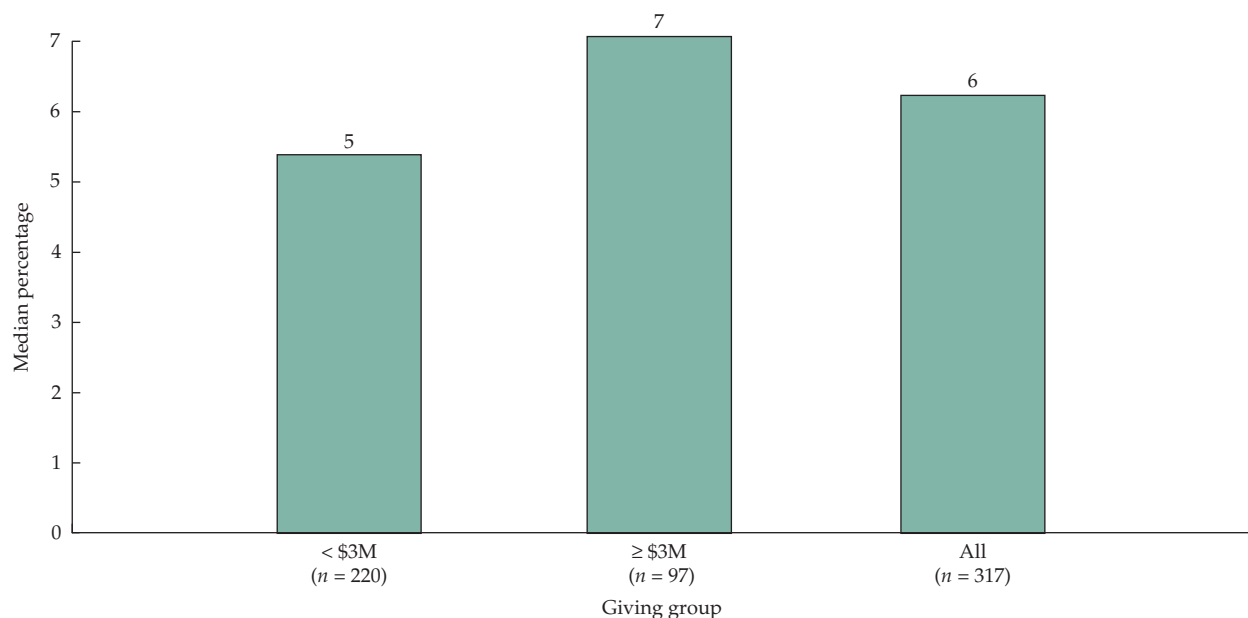
In general, as figure 3.14 shows, larger foundations spend slightly higher portions of their qualifying distributions on charitable administrative expenses than smaller foundations (7 percent versus 5 percent). Apparently, community foundations do not benefit from the same economies of scale as independent foundations. Nevertheless, the median expense ratio for larger community foundations (7 percent) is similar to the ratios for medium-sized to larger independent foundations, which range from 6 to 8 percent.

While the medians represent typical expense-to-qualifying distribution ratios, figure 3.15 shows the full range of expense ratios for all foundations studied. In general, community foundations report slightly lower ratios than staffed

independent foundations. For example, 64 percent have ratios of less than 10 percent, compared with 59 percent of staffed independent foundations; and 45 percent have ratios of less than 5 percent, compared with 36 percent of staffed independent foundations.

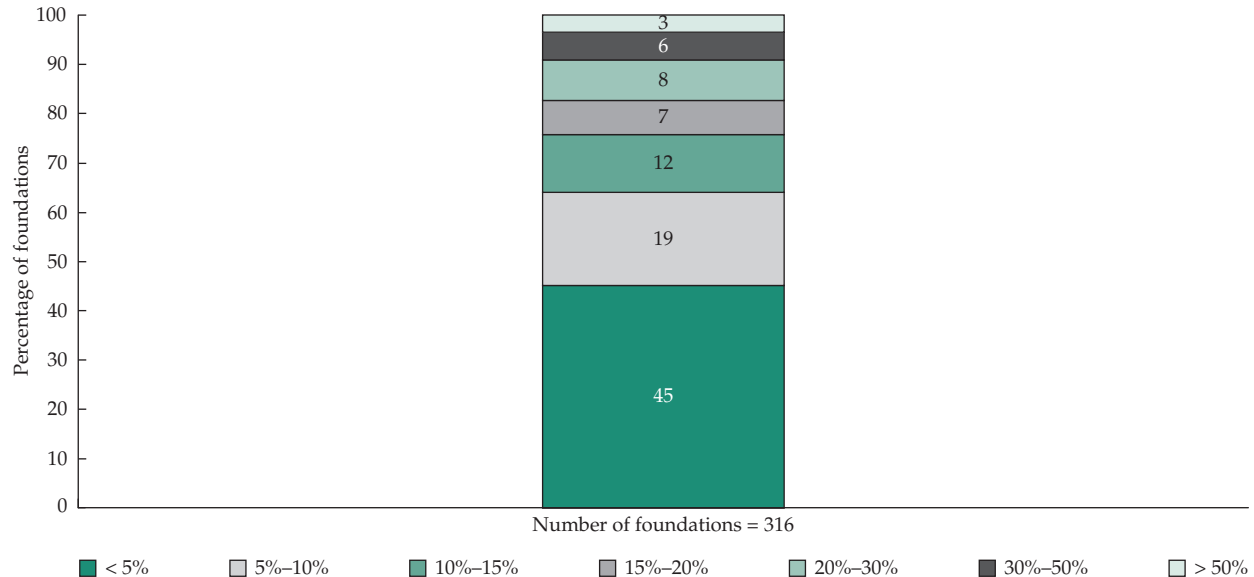
Yet at the high end of the distributions, the proportion of community foundations is slightly larger than that of staffed independent foundations. Nine percent of the community foundations studied (29) have charitable administrative expenses that make up, on average, 30 percent or more of their qualifying distributions, compared with 7 percent of independent foundations. Most community foundations with average expense ratios of 30 percent or more (22, or 76 percent) report ratios above 30 percent in all years. The vast majority of these foundations give less than \$1 million, suggesting that they may still be building a donor base. They are also relatively young: nearly half were formed since 1989. Only two foundations with consistently high ratios regularly report direct charitable activities. Yet seven others have six or more staff, suggesting that they too may conduct activities that substitute for grantmaking.

Figure 3.14. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Giving Size (Community Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Figure 3.15. Distribution of Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Community Foundations



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Influence of Staff Size

Even though nearly all the community foundations studied have staff, the number of staff they employ varies widely. The number of staff has a strong effect on the expense levels of community foundations. As the number increases, so does the median charitable administrative expense-to-qualifying distribution ratio. For example, the median ratio for foundations with giving less than \$3 million increases from 3 percent for those with one or two staff to nearly 23 percent for those with seven or more staff (figure 3.16).

Larger community foundations show a similar pattern of staff size influence: median expense-to-qualifying distribution ratios of foundations with giving greater than \$3 million increase from 5 percent for those with up to 9 staff to 10 percent for those with 20 or more staff (figure 3.17).

Staff size is an important indicator of expense levels in community foundations, regardless of foundation size. The wide variation in staff size among both smaller and larger foundations suggests that they are operating very differently in terms of the types of services they provide to donors, recipients, and their communities. Another possible explanation is that they are in different stages of development.

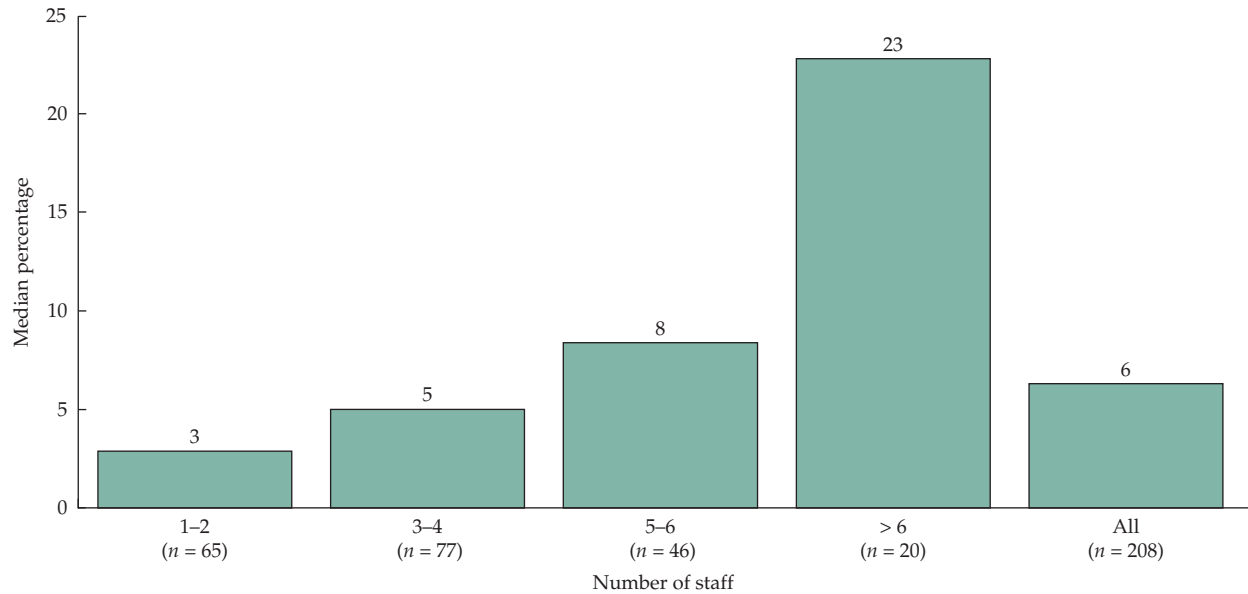
Influence of Foundation Age (Establishment Period)

The age of a community foundation affects the charitable administrative expense portion of qualifying distributions. Interestingly, age is not significant for independent and corporate foundations. Of the 317 foundations studied, 56 (18 percent) were formed before 1950, 58 (18 percent) were formed between 1950 and 1969, 123 (39 percent) were formed between 1970 and 1989, and 80 (25 percent) were formed after 1989.

In general, the youngest foundations spend the highest proportion of their qualifying distributions on charitable administrative expenses (figure 3.18). Median expense ratios of foundations formed since 1990 are 9 percent, on average, compared with 5 percent for those created between 1950 and 1989 and 7 percent for those formed before 1950.

The impact of foundation age on expense levels varies slightly by foundation size. Among foundations that give \$3 million or more, median expense-to-qualifying distribution ratios are the highest for the youngest and the oldest foundations (9 and 8 percent, respectively). Among smaller foundations, the youngest foundations also have the highest median ratio (9 percent), but

Figure 3.16. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staff Size (Community Foundations Giving Less than \$3M)



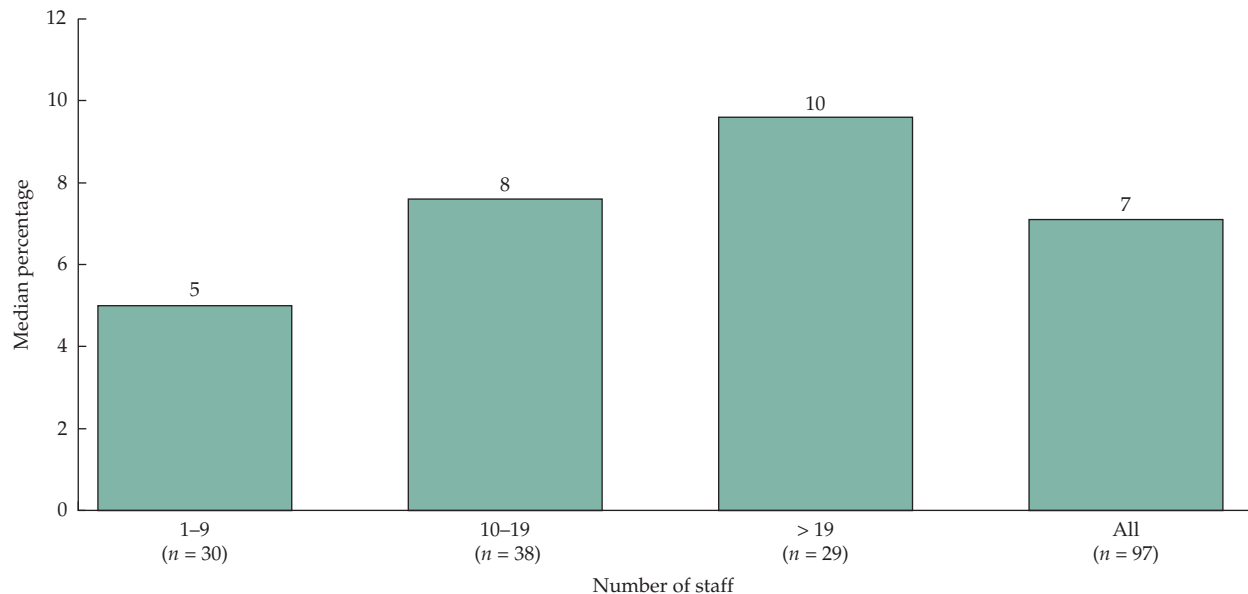
Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

the oldest foundations have a median ratio more in line with foundations in other age groups (4 percent).

The higher expense levels of new community foundations suggest that they have high startup

costs. While new independent foundations are often run by unpaid family members, new community foundations must hire staff. Also, new community foundations typically engage in very limited grantmaking in their early years

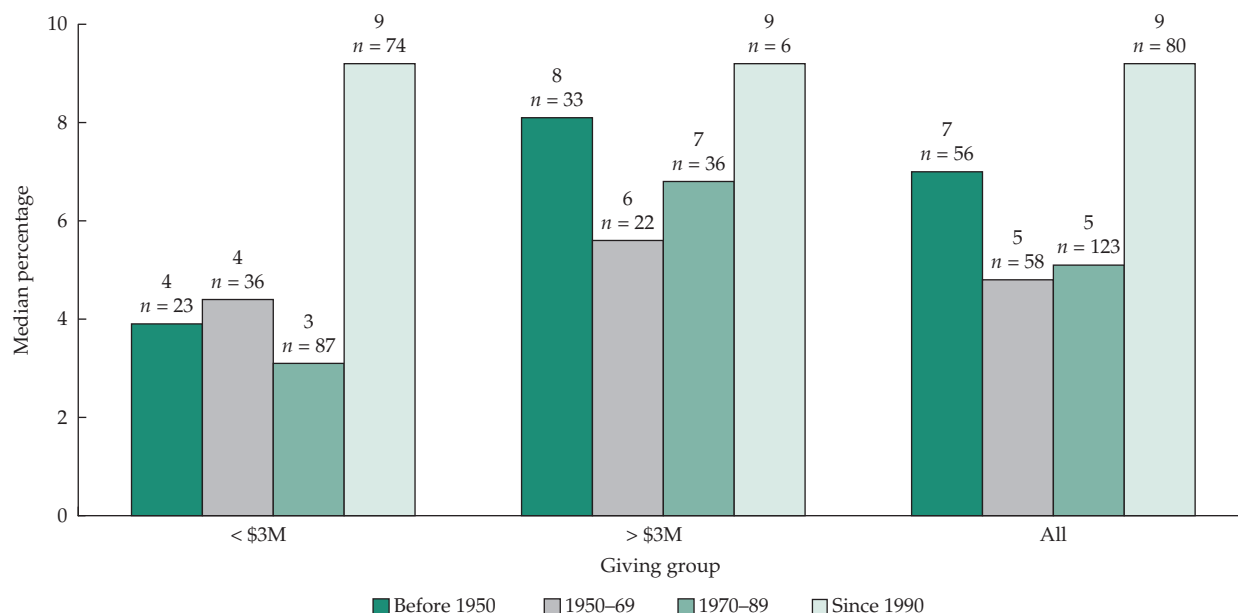
Figure 3.17. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staff Size (Community Foundations Giving \$3M or More)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

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Figure 3.18. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Foundation Age (Community Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

of operation while they raise funds and build their endowments. As grantmaking ramps up for these foundations, the administrative expense portion of their charitable disbursements decreases.

Also, it appears that as small community foundations mature, more evolved organizational and grantmaking techniques result in operational efficiencies that lower charitable administrative expense-to-qualifying distribution levels. In large foundations, however, these economies diminish as the organizations grow in scope, confront new organizational and logistical challenges, and play more diverse nongrantmaking roles in their communities, such as convening local stakeholders around important community issues and operating nonprofit service centers, as discussed below.²⁶

Influence of Direct Charitable Activities

In addition to grantmaking, some community foundations conduct direct charitable activities. Activities range from community service and leadership training programs to cultural and edu-

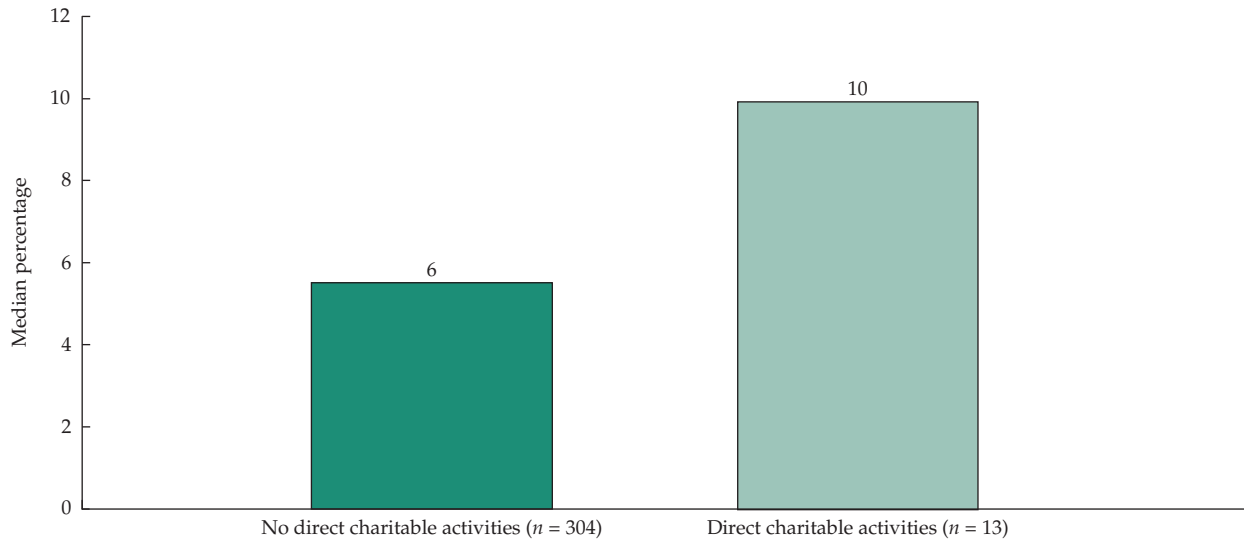
cational programs and technical support programs to enhance nonprofit management and effectiveness.

As figure 3.19 shows, foundations in this study that conduct their own charitable programs have nearly twice the proportion of charitable administrative expenses to qualifying distributions than those that do not (10 percent versus 6 percent).

In general, community foundations that engage in direct charitable activities have much lower median charitable administrative expense levels than independent and corporate foundations,²⁷ and the difference between community foundations with and without these activities is less pronounced. With just a few exceptions, community foundations that run their own programs spend a limited amount on these activities compared to their grantmaking.

Only 13 community foundations in the study regularly report direct charitable activities based on available data.²⁸ However, this number likely understates the extent of this practice.²⁹ In fact, it is difficult to obtain comparable data on community foundations' activities since the tax form that they are required to file—the Form 990—does not request this information.

Figure 3.19. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Direct Charitable Activities (Community Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Influence of Maintaining a Web Site

Due to the public nature of their work and because they are constantly seeking new donors, community foundations are much more likely than other foundations to invest in creating and maintaining web sites. Indeed, of the 317 community foundations studied, 80 percent have web sites, compared with 27 percent of staffed independent foundations (figure 3.20 and figure A.3.5 in chapter appendix).

In general, community foundations with web sites spend larger portions of their qualifying distributions on charitable administrative expenses than those without web sites. Median expense ratios for foundations with and without web sites are 8 percent versus 2 percent. Foundation size has only a marginal effect on median ratios: foundations with web sites that give less than \$3 million have a ratio of 8 percent compared with 7 percent for those that give over \$3 million.

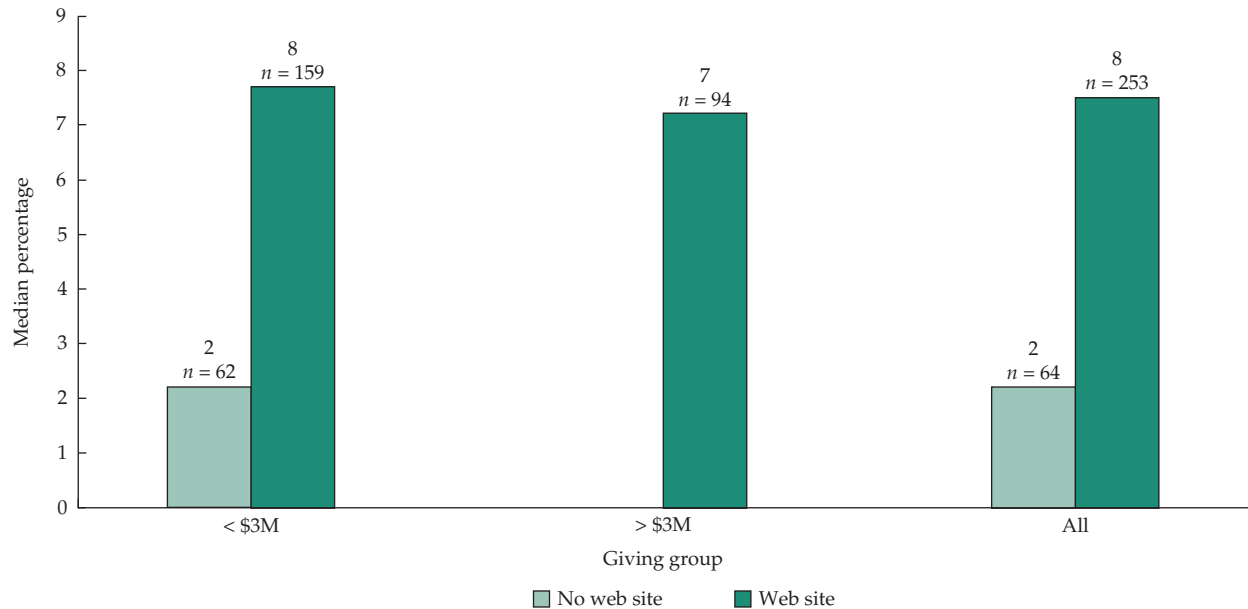
While most community foundations that maintain web sites report higher expense-to-qualifying distribution ratios, it is unlikely that web sites alone influence these high ratios. As noted above in the independent foundation analysis, the presence of web sites may be an indicator of other cost factors such as higher overall

communications costs, higher professional fees, or larger staffs. Taken together, these costs can exert upward pressure on community foundation expense levels.

Summary

Community foundations differ from private foundations operationally and structurally. The fact that all but a few foundations in the study have paid staff, compared with much smaller proportions of independent and corporate foundations, must be taken into account when assessing expense patterns. For community foundations in this study, activities such as having a larger number of staff, engaging in direct charitable activities, and maintaining a web site raise the administrative expense portion of charitable disbursements. Expense ratios increase slightly with giving size, suggesting that larger foundations do not benefit much from economies of scale. Young foundations—large and small—have higher expense ratios, suggesting the presence of high startup costs associated with the development of infrastructure and operations. Larger, mature community foundations, which tend to engage in more complex activities and have more staff, also have higher ratios. These findings on expense patterns

Figure 3.20. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Web Sites (Community Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Note: Since only two foundations in the \$3 million or greater giving group do not have web sites, no median is shown.

over three years confirm similar patterns that were documented for 2001.

Key Overall Findings

This chapter examines how operating characteristics influence the charitable administrative expense portion of qualifying distributions for each of the three types of foundations in the study. To summarize:

- Operating characteristics affect the expense ratios of independent, corporate, and community foundations differently because of inherent differences in the auspices, governance, structures, and activities of these types of foundations.
- Employing staff is the single most important factor affecting expense levels, but the degree of impact varies depending on the size and type of foundation. Smaller foundations generally have few or no paid staff. Community foundations are much more likely to employ professional staff, regardless of their size. Corporate foundations

are less likely to report staff compensation, usually because the parent company absorbs these costs. Regardless, for all foundations that compensate staff, having a larger number of staff increases median expense ratios.

- Factors associated with more complex activities that tend to require larger staffs—such as international grantmaking and direct charitable activities—generally lead to higher expense ratios, while donor-family involvement and operating as a pass-through foundation are associated with lower ratios.
- Although median expense-to-qualifying distribution ratios varied slightly between 2001 and 2003, the patterns of influence associated with particular operating characteristics are consistent and predictable. This holds for all foundation types.

Notes

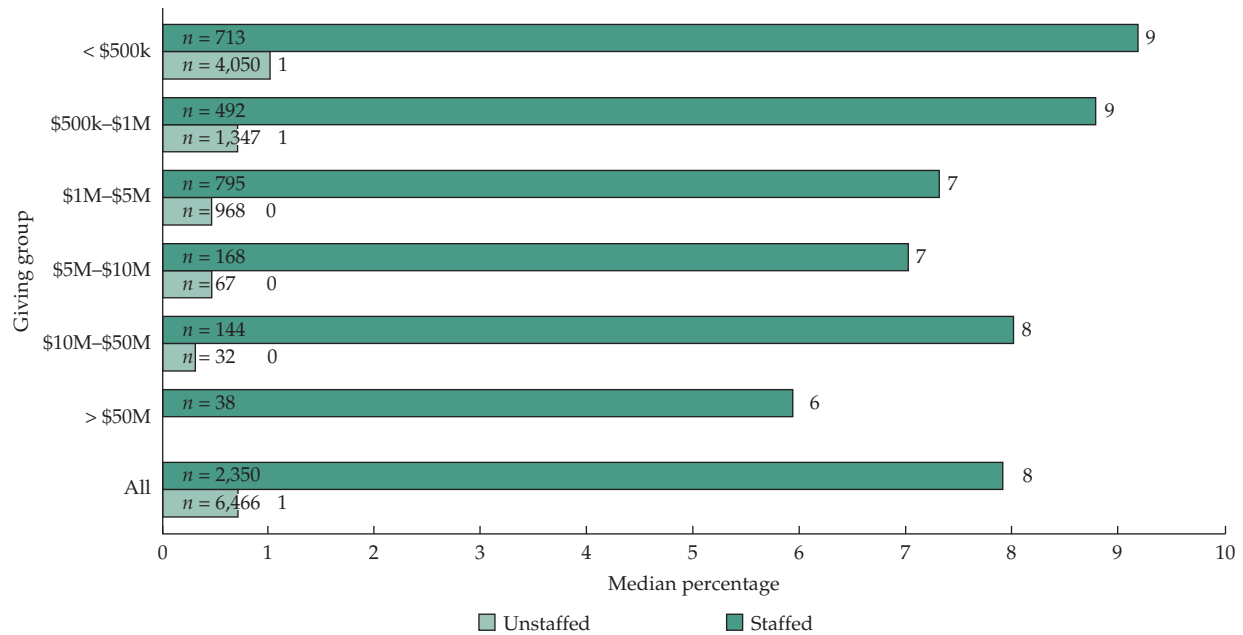
1. An average for key financial indicators and numerical characteristics, such as staff size, was calculated for 2001

- to 2003, and a new median was drawn. Rules were also created for assigning nonnumeric values.
2. See Loren Renz and Steven Lawrence, *Foundation Growth and Giving Estimates: 2002 Preview* (New York: Foundation Center, 2003). See also Loren Renz and Leslie Marino, "Giving in the Aftermath of September 11: Final Update on the Foundation and Corporate Response," in *September 11: The Philanthropic Response* (New York: Foundation Center, 2005).
 3. Form 990-PF, Part XIII, line 3f, column A. Carryover can be applied to the minimum distribution requirement only after current-year qualifying distributions have been applied, and any excess distributions that are not applied within five years are forfeited.
 4. For foundations whose carryover fully replaces new giving, charitable administrative expenses are 100 percent of qualifying distributions. In 2001, studied foundations gave at least \$180,000 and none had an expense-to-qualifying distribution ratio of 100 percent. However, in 2002, 34 foundations (including 31 without staff) reported zero giving and had ratios of 100 percent. This number rose to 51 (including 45 unstaffed foundations) in 2003. A review of 2002 and 2003 tax forms for a sample of these foundations revealed that nearly all reported carryover. Of the nine staffed foundations with a ratio of 100 percent, seven applied carryover. Among a sample of 10 unstaffed foundations with that high ratio, all used carryover. The results were similar for a sample of foundations with ratios between 50 and 99 percent.
 5. In contrast, excess distributions are considered qualifying distributions in the year they are disbursed. The charitable administrative expenses portion of qualifying distributions is therefore lower in years in which foundations make excess distributions. It is higher in years when carryover is applied to meet the minimum distribution requirement—the payout.
 6. Of the 146 independent foundations with expense-to-qualifying distribution ratios of 30 percent or more in each year, 49 (34 percent) regularly conducted direct charitable activities. As shown later in this analysis, such activities are associated with very high expense ratios for independent foundations.
 7. 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.
 8. In the 2001–03 data set, foundations were coded by scope of giving based on a two-out-of-three-year rule. Most foundations do not change their scope of giving from year to year.
 9. 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): 8–12.
 10. While their overall expense ratios may be higher, international funders who work mainly in developing countries point out that the benefit derived per grant dollar is much higher in these areas than in the United States. Indeed, anecdotal evidence suggests that many small- to medium-sized foundations engage in international work precisely because they believe that their grant dollars will have a greater impact on the problems of the most impoverished countries.
 11. For a summary of direct charitable activities, see Instructions for Form 990-PF on the Internal Revenue Service web site: www.irs.gov/instructions/i990pf/ch02.html#d0e4459. For information on recent activity patterns and their impact on foundation expenses, see Loren Renz and Rachel Elias, *More than Grantmaking: A First Look at Foundations' Direct Charitable Activities* (New York: Foundation Center, 2007).
 12. To meet the criteria for direct charitable activities, a foundation must have reported such activities for at least two of the three study years, either in Pt. IX-A of the 990-PF or in the Foundation Center's annual survey. The number of direct charitable activity reporters in the study increased from 149 in 2001 to 158 in 2002 and 190 in 2003, suggesting that this practice is on the rise. In addition, 168 foundations reported nongrantmaking charitable activities in at least two of the three years. This relatively high number indicates that the vast majority of foundations that engage in these types of activities do so regularly.
 13. According to a 2007 Foundation Center survey of mainly large foundations, 60 percent of independent foundations that conduct direct charitable activities increased these types of activities over the past five years. See *More than Grantmaking: A First Look at Foundations' Direct Charitable Activities*, p. 5.
 14. Foundations were coded as having a grants-to-individuals program if they qualified in two or more years. Most foundations studied met this criterion. Thus, the number of foundations making grants to individuals in the 2001–03 data set (158) was greater than the number for any one year.
 15. David F. Freeman and colleagues note, "Federal tax law requires that a foundation planning to make grants [to individuals] for 'travel, study, or other similar purposes' obtain advance approval of its selection procedures from the IRS. And [these] must be designed to ensure objectivity in the selection process." (*The Handbook on Private Foundations*, 3rd ed. [Washington, DC: Council on Foundations, 2005, p. 66].)
 16. Since foundations may report the costs of managing grants-to-individuals programs as direct charitable activities, there is likely overlap between these two factors and expense ratios.
 17. The number of staffed independent foundations with web sites increased from 551 in 2001 to 710 in 2003, up 29 percent. Most foundations that started up web sites during this period gave less than \$5 million, on average. Still, the very largest foundations are the most likely to invest in web sites: in the 2001–03 data set, 84 percent of

- the foundations that gave at least \$50 million, on average, have web sites, compared with just 12 percent of those that gave less than \$500,000.
18. Foundations were coded as PRI-makers if they reported charitable loans or other program-related investments on Form 990-PF, Pt. IX-B, or in the Foundation Center survey in at least two years. Many foundations that make PRIs do so occasionally, not regularly. While at least 61 foundations made PRIs in all years, only 46 meet the criterion for PRI-maker in the 2001–03 data set.
 19. The Foundation Center uses objective and subjective criteria to identify foundations with donor or donor-family involvement: (1) if a foundation identifies itself as a “family foundation” in the Center’s annual survey; (2) if the foundation has “Family” in its name; (3) if a living donor’s surname matches the foundation’s name; or (4) if at least two trustees’ surnames match a living or deceased donor’s name.
 20. Most foundations with large staffs are endowed. For example, all but 4 of the 68 foundations that employ 15 to 50 staff are endowed. All 17 foundations that employ more than 50 staff are endowed.
 21. To meet the criterion for direct charitable activities, a foundation must have reported these activities in two or more years. Although the number of corporate foundations with direct charitable activities rose from 16 in 2001 to 23 in 2003, only 17 foundations reported such activities in more than one year.
 22. The Foundation Center uses the same criteria for coding independent and corporate foundations by geographic scope: in the absence of specified guidelines, foundations giving in 10 or more states are considered national while those giving in fewer than 10 states are local. In general, local independent foundations give in only one or two states, while local corporate foundations give in areas of company operation in many states. Since local and national corporate foundations may differ only slightly in scope, they are grouped together in figure 3.13.
 23. Form 990, Part II, column b, line 44.
 24. Form 990, Part II, column b, line 44 minus lines 22 and 23.
 25. Unlike independent foundations, which may draw on family members to run their programs, and corporate foundations, which may draw on the parent company’s resources, most community foundations depend on paid staff to manage foundation operations.
 26. Community foundation representatives point to another age-related factor that affects charitable administrative (program service) expenses but could not be measured in this study: the types of funds a foundation has. In general, older community foundations have more unrestricted and field-of-interest funds, which require the foundation to employ program officers. In contrast, younger community foundations in corporate form have more donor-advised funds. Donor-advised funds require more pure administrative costs than program service expenses since the donor-advisor acts as an unpaid program officer.
 27. This difference is confirmed by a 2007 Foundation Center survey in which community foundations reported much lower direct charitable activity-to-charitable administrative costs compared with independent foundations. See *More than Grantmaking: A First Look at Foundations’ Direct Charitable Activities*, p. 7.
 28. Community foundations were coded as engaging in direct charitable activities if they reported a “program amount” in the Foundation Center’s annual *Foundation Directory* survey in at least two of the three study years. Although only 13 community foundations meet this criterion, the number of foundations reporting such activities rose from 9 in 2001 to 35 in 2003. Apparently, this practice is spreading.
 29. Three in five community foundations that responded to a 2007 Foundation Center survey that focused uniquely on direct charitable activities said that they conduct such programs, with an emphasis on building capacity among grantees and providing community leadership. See *More than Grantmaking: A First Look at Foundations’ Direct Charitable Activities*, p. 7.

Chapter 3 Appendix

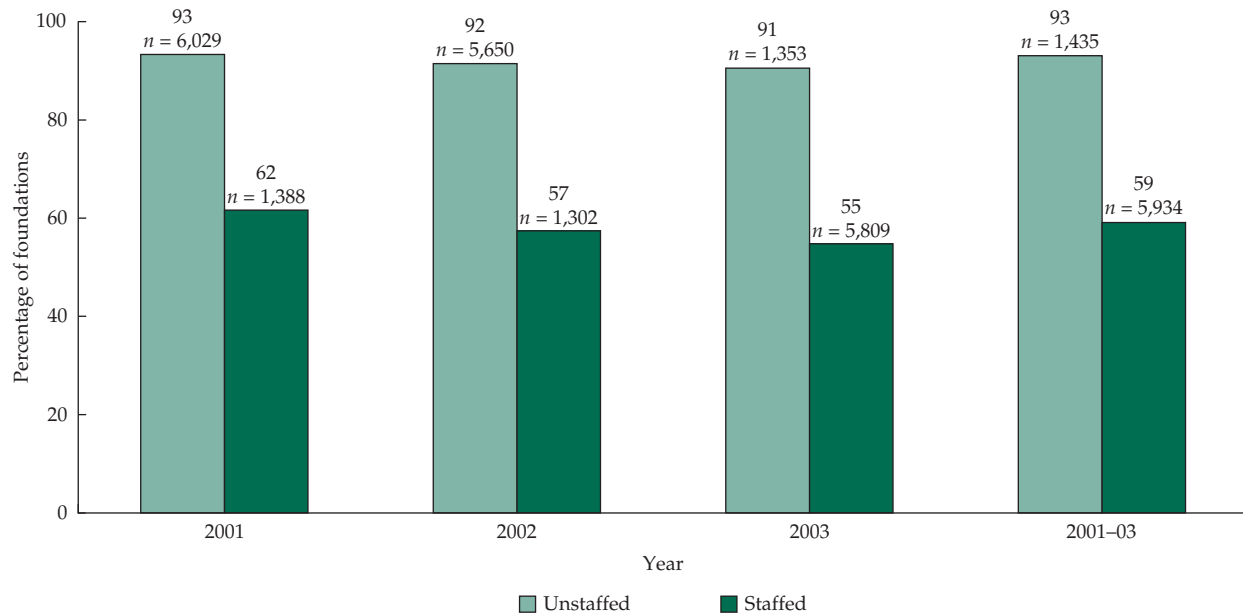
Figure A.3.1. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Staffed and Unstaffed (Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Note: Since the \$50 million or greater giving group has only two unstaffed foundations, no median is shown.

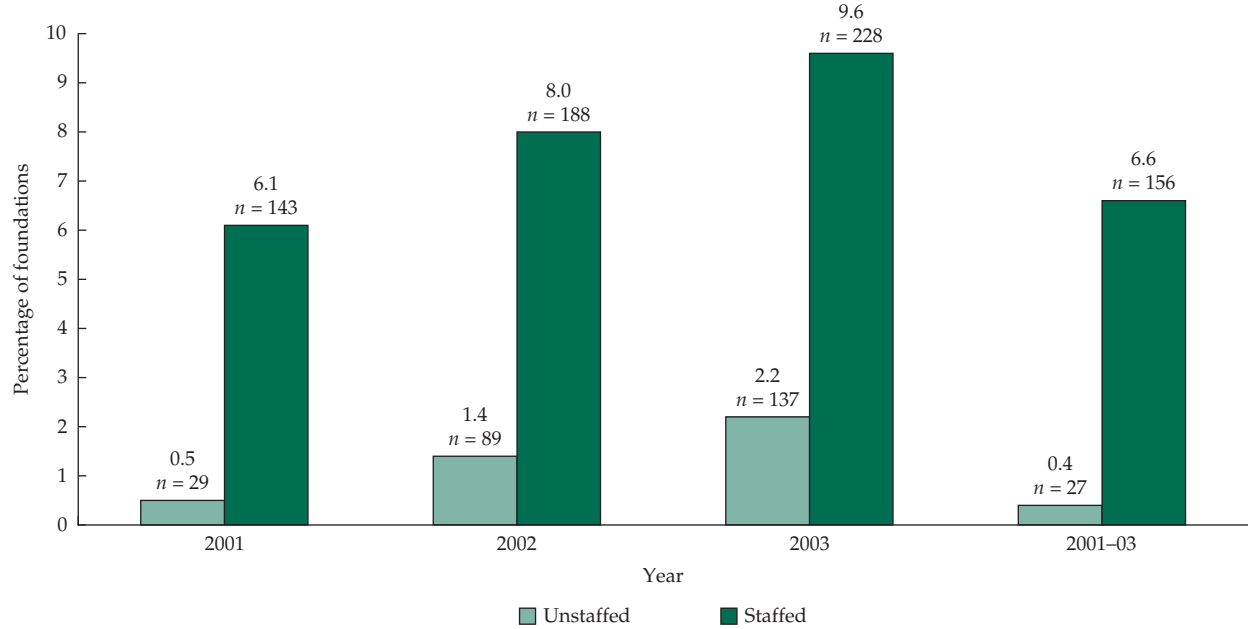
Figure A.3.2. Percentage of Foundations with Charitable Expense-to-Qualifying Distribution Levels below 10 Percent, 2001, 2002, and 2003: Staffed and Unstaffed (Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

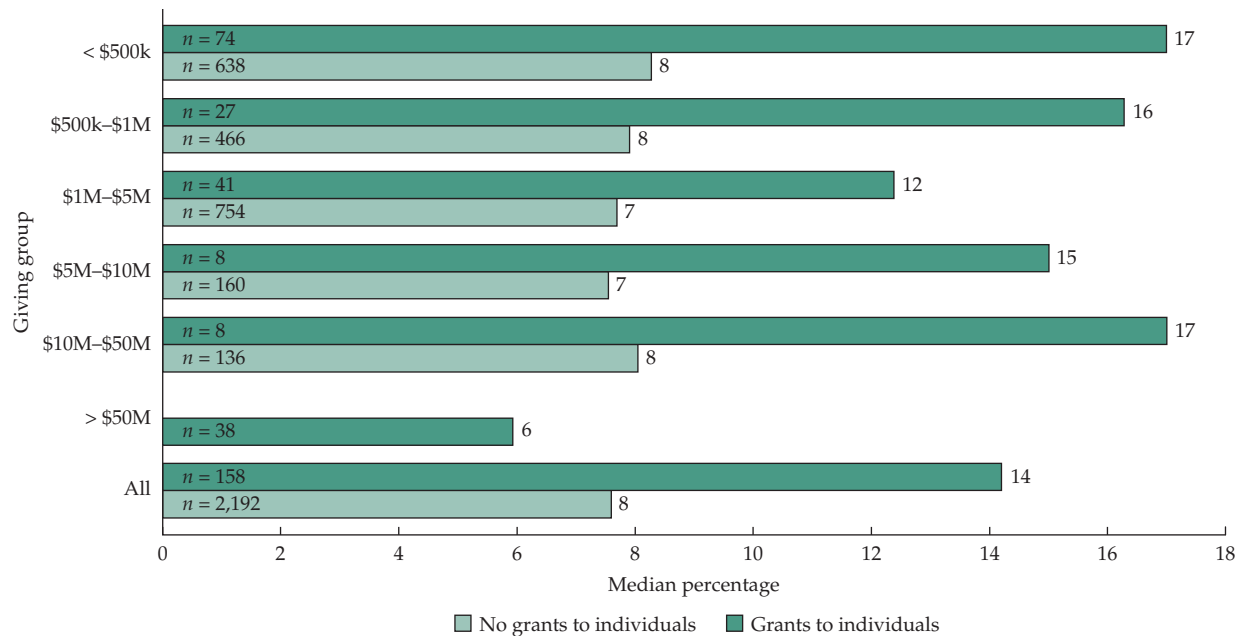
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Figure A.3.3. Percentage of Foundations with Charitable Expense-to-Qualifying Distribution Levels above 30 Percent, 2001, 2002, and 2003: Staffed and Unstaffed (Independent Foundations)



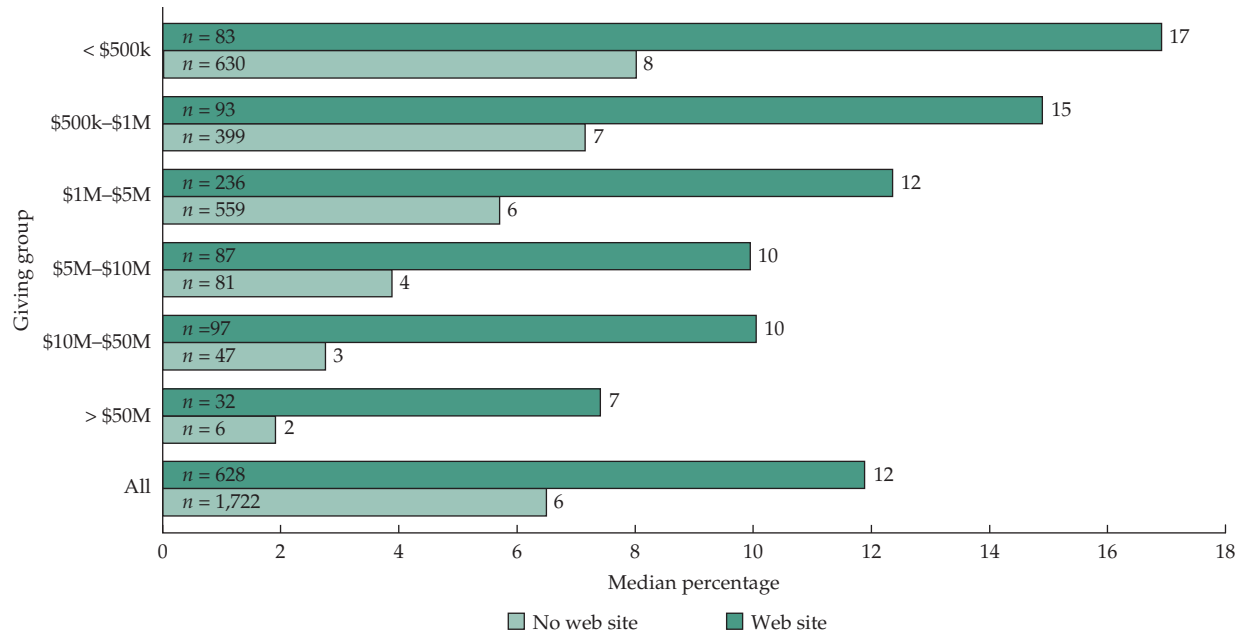
Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

Figure A.3.4. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001-03: Grants to Individuals (Staffed Independent Foundations)



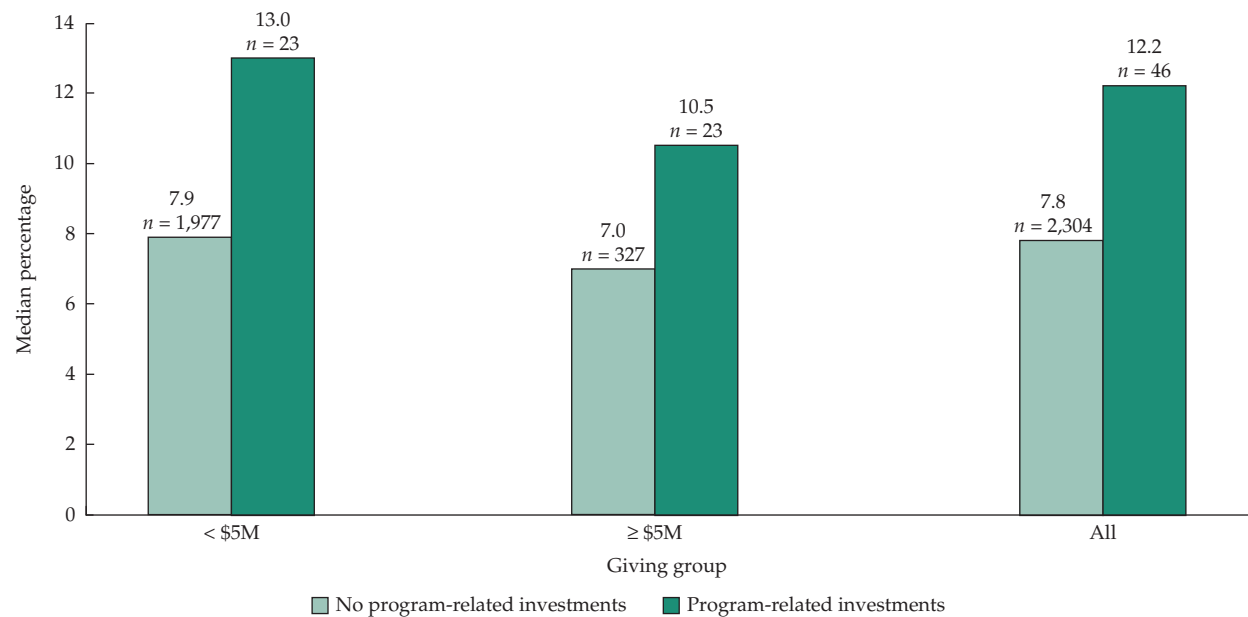
Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001-03.

Figure A.3.5. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Web Sites (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

Figure A.3.6. Charitable Administrative Expenses as a Share of Qualifying Distributions, 2001–03: Program-Related Investments (Staffed Independent Foundations)



Source: NCCS-Foundation Center-GuideStar, Foundation Expenses Data Set, 2001–03.

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IV

Compensation

Compensation in grantmaking foundations draws public attention primarily for two reasons. First, some foundations compensate executives at comparatively high levels, raising questions of what levels of compensation are appropriate relative to the complexity of the foundation and its programs. Second, a noticeable minority of foundations accomplish their tasks by compensating board members and institutional trustees, a practice rarely found in other parts of the nonprofit sector.

In fact, foundation compensation practices vary widely and depend on organizational characteristics. Most grantmaking foundations do not compensate any staff or board member, even among the largest foundations. Of the 10,000 foundations studied, 4,784 report compensation among their expense items, leaving 5,216 that report zero compensation, benefits, or payroll taxes across the three-year study period.¹

This chapter examines the detailed compensation reported in Part VIII-1, 2 of Form 990-PF and Part V and Schedule A Part I of Form 990. In these sections of the Forms 990, filers are asked to list all officers, directors, trustees, managers, and key employees, giving their titles, number of hours worked, and compensation. Summary characteristics of these individuals are aggregated back to the foundation, showing the number of board members and total compensation paid to board members or staff. This chapter draws on both the individual and foundation levels of analysis. Compensation includes both program-related

and investment-related remuneration, defined as the sum of (1) individual compensation and (2) contributions to individual employee benefit plans and deferred compensation.²

This chapter first considers the compensation of top staff executives and then focuses on compensation of board members, including an exploration of which foundations are most likely to compensate their individual board members. Finally, it examines compensation of institutional trustees, which are banks and other organizations listed among the rosters of foundation board members and trustees.

Executive Compensation

Of the 10,000 foundations studied, nearly 30 percent (2,938) report paid staff in two out of three years analyzed. Of these, roughly a third (1,005, 1,052, and 1,079 in the three study years, respectively) list a compensated staff member with a title of president, chief executive officer, or executive director.³ Because not all foundations list their staff and because they are not required to list all staff members, this section concentrates on these senior staff members as a common point of reference. While most of these staff executives also serve on their foundation's governing board, they are counted here as staff and are not included in the analysis of board members.⁴

In all three years, the median compensation for the executives studied is slightly over \$100,000.

The average compensation is higher because a few executives receive substantially larger compensation packages. The size of the foundation as measured by the size of annual giving, however, appears linked to the size of the compensation package. Figures 4.1 and 4.2 show the median compensation of foundation executives across giving groups for independent and community foundations. The number of compensated executives reported in corporate foundations is too few to warrant analysis.

As figure 4.1 shows, compensation of executive staff in independent foundations depends substantially on the size of the foundation. Executives in the smallest independent foundations in the study, which are still relatively large compared to small foundations generally, typically command compensation around \$50,000. Median compensation rises steadily as giving increases, with executives in the largest independent foundations typically making over \$500,000 in 2003. Although the pool of executive staff varies across the three years (i.e., the same individuals are not tracked from year to year), the number of cases and median compensation is fairly similar. The exception is the substantial rise in median com-

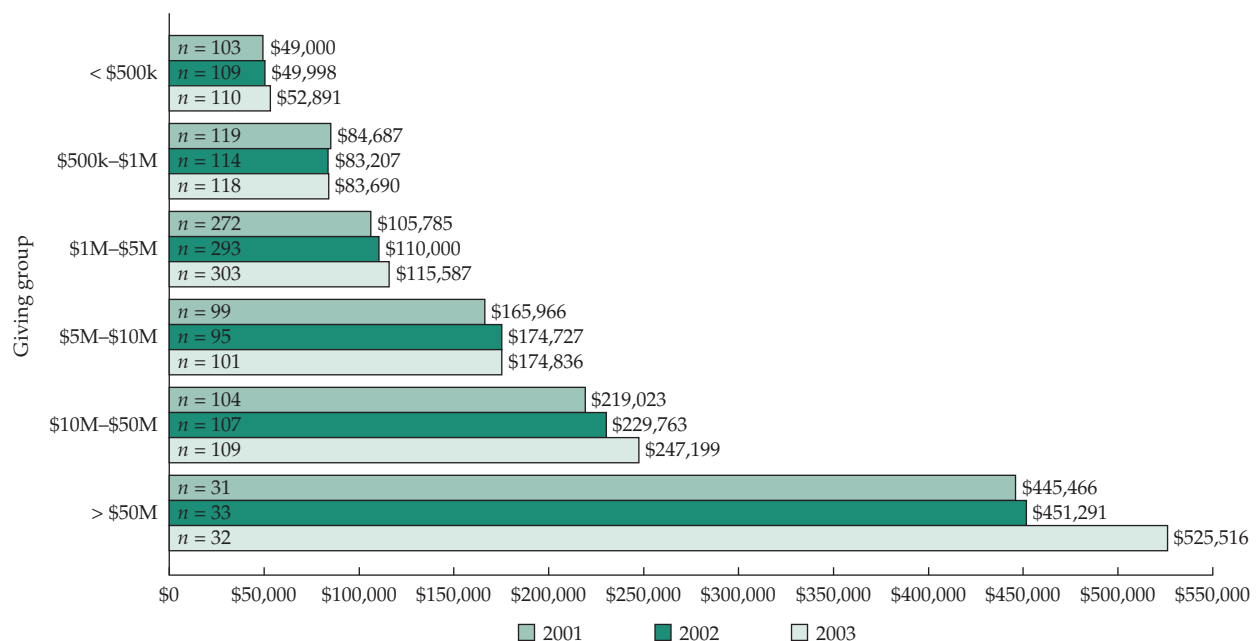
ensation for executives in the largest independent foundations.

The pattern of executive compensation in community foundations is similar to that of independent foundations. Executive compensation varies with size, but the effect is not as pronounced. Compared with independent foundations, compensation levels in community foundations rise more gradually with level of giving (figure 4.2). Executives in the smallest foundations earn less than \$50,000, although \$50,000 is typical for community foundation executives whose foundations give between \$500,000 and \$1 million in annual grants.

Median executive compensation in the largest community foundations is somewhat lower than the median in the largest independent foundations. The small number of community foundations, however, makes “typical” compensation difficult to gauge.

As with independent foundations, the consistency in findings from year to year is striking. Even with the large increase in the number of foundations in the \$10 million to \$50 million category in 2002 and 2003, the median remains static across years.

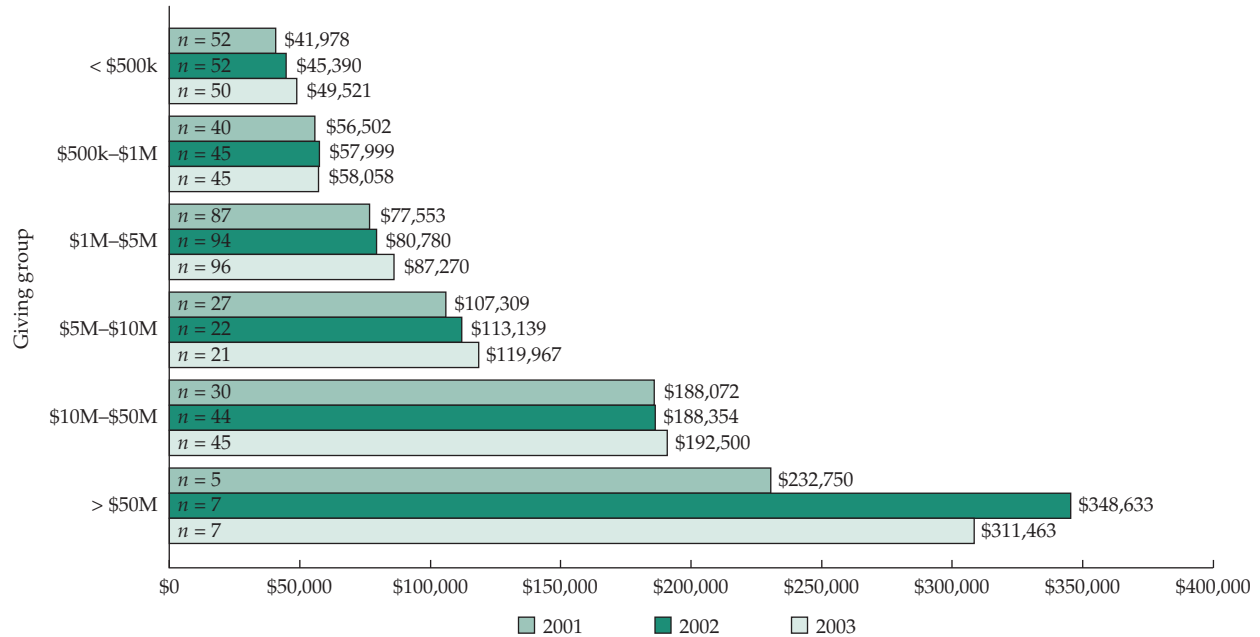
Figure 4.1. Median Compensation of Foundation Executives in Independent Foundations, by Level of Annual Giving, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001-03.

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Figure 4.2. Median Compensation of Foundation Executives in Community Foundations, by Level of Annual Giving, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001-03.

In addition to type and size of foundation, other characteristics influencing executive compensation are the foundation’s participation in direct charitable activities, scope of grantmaking, and the title of the executive officer.

Foundations that engage in direct charitable activities tend to pay higher executive compensation. This may result from the increased complexity of running programs in addition to grantmaking. In 2003, the 186 executives in foundations with direct charitable activities have a median compensation of \$157,522, compared with a median of \$100,865 for executives in strictly grantmaking foundations.

The geographic scope of grantmaking also influences compensation packages, with national and international foundations paying higher executive compensation than local foundations. In 2003, 852 executives in foundations with a local grantmaking focus typically received \$100,000 in compensation. In contrast, their colleagues in national and international foundations earned a median of \$156,876 and \$164,991, respectively. This finding, however, results partly from the larger size of national and international foundations.

Finally, title and compensation are linked. In 2003, the titles of 1,079 executives in this analysis are almost evenly divided between “executive director” (562) and “president” or “chief executive officer” (517). Executive directors, a title more typically found among community foundations than independent or corporate foundations, earn median compensation of \$83,149. In contrast, the titles of president or chief executive officer generally have a median compensation of \$150,000.

Individual Board Members

Since less than 30 percent of the largest 10,000 foundations have paid staff, how do the other foundations get work done? For 1,846 other foundations, the answer lies partly in compensating board members or institutional trustees. The remaining 5,216 foundations in the study do not compensate anyone. They conduct business through the unpaid efforts of family members and board members.

Compensated board members are either individuals or institutional trustees. Institutional

trustees are banks, law firms, or professional management firms listed among foundations' board members. (The next section considers institutional trustees separately.) Of the 1,846 foundations that compensate board members rather than staff, 838 compensate only individual board members, 778 compensate only institutional trustees, and 230 compensate both.

Forms 990 and 990-PF are a good source of board member and institutional trustee compensation information.⁵ Whereas staff compensation information is incomplete because foundations are only asked to list key staff members, board member compensation information is reasonably complete because of instructions to list all board members and trustees. However, the forms do not ask or require filers to indicate which individuals are staff members and which are board members, and many executive staff members serve in both capacities.⁶ This chapter's analysis relies on our assessments of whether compensated individuals are regular staff members or nonstaff board members.

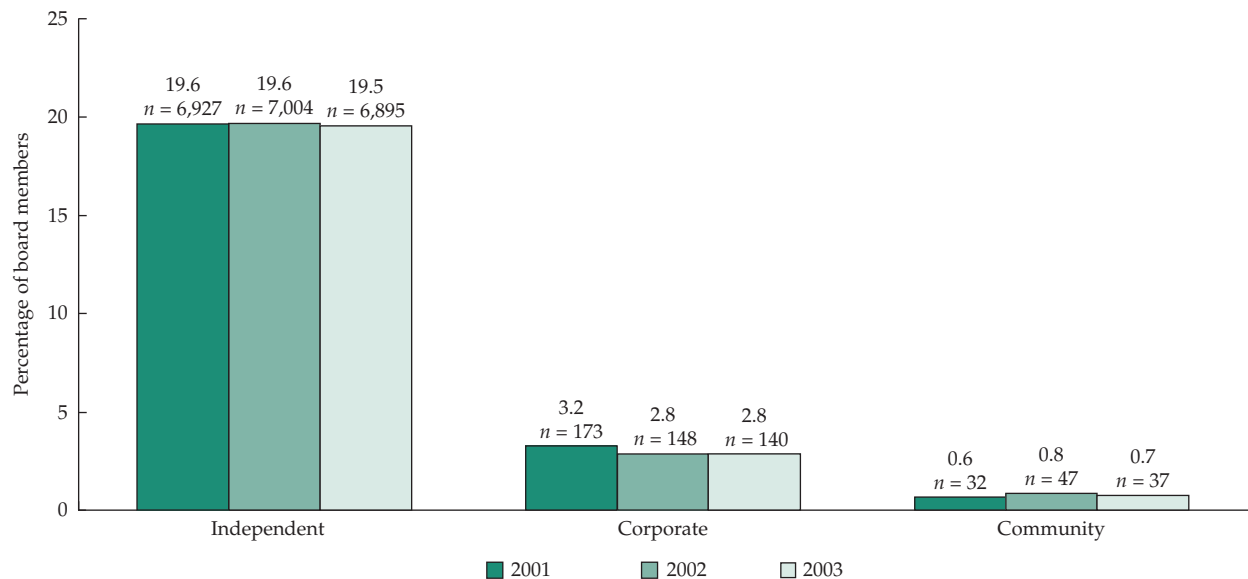
In the analyses that follow, individual board members are nonstaff members of a foundation's governing board who spend a limited amount of time primarily providing governance for the foundation. To differentiate staff from nonstaff

board members, the analysis considers titles, hours worked, salaries, benefits package, and relative position in the foundation. In many cases, it also considers the role that individuals played in other study years, such as considering 2001 codes when evaluating an individual in 2002 and 2003.

Figure 4.3 shows the percentage of individual board members that receive compensation in the three study years for each foundation type.

- The percentage of board members compensated does not vary substantially across the study years.
- Nearly one in five board members in independent foundations receives compensation. Most board member compensation occurs in independent foundations: corporate and community foundation board members are substantially less likely to receive compensation.
- Corporate foundation board member compensation may be understated, with corporate representatives paid as members of the corporation rather than as governance representatives for the foundation.
- Board member compensation in community foundations is rare, with only 32, 47, and 37 cases in the three respective study years.

Figure 4.3. Percentage of Individual Board Members Who Receive Compensation, by Foundation Type, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

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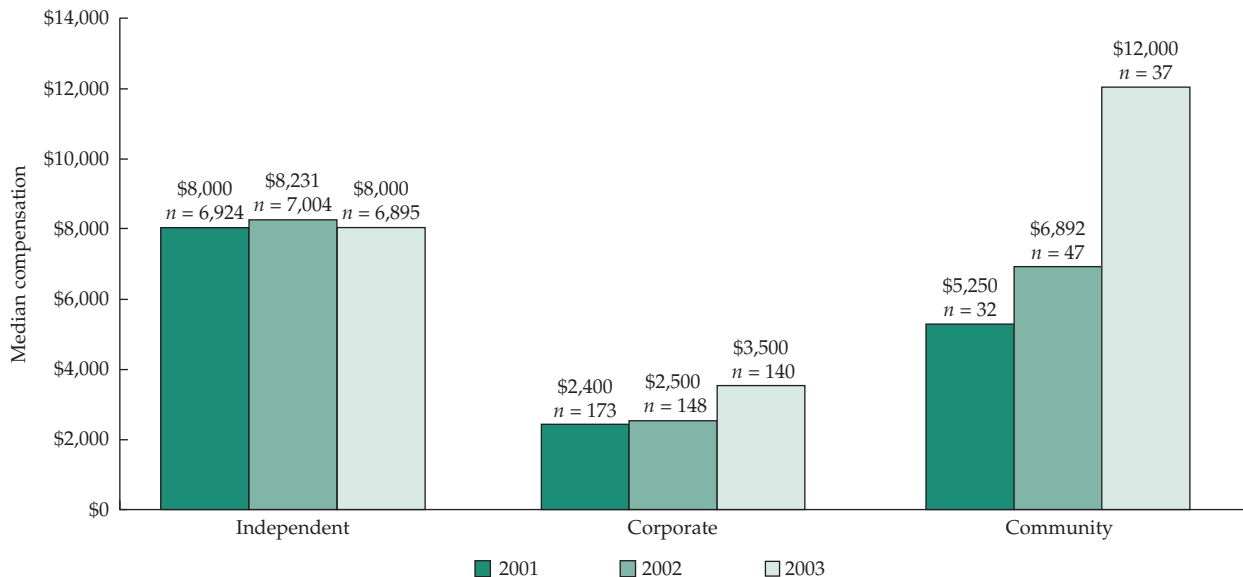
Over the three years studied, the number of board members who are compensated and the total amount spent in compensation fluctuates slightly. In 2001, the 10,000 foundations studied report 46,523 individual nonstaff board members, with 7,132 compensated board members receiving an aggregate \$111.6 million.⁷ In 2002, there are 50 fewer foundations because of mergers, closures, and changes in status. Of 46,764 individual board members in 2002, 7,199 received an aggregate compensation of \$111.2 million. In 2003, with another 60 fewer foundations than in 2002, the pool of individual board members fell to 45,942. Of these, 7,072 received an aggregate compensation of \$109.3 million.⁸

Most board members serve a series of years, and most of the board members in the 2001 pool also fall into the 2002 and 2003 pools. Some board members (or entire foundations) retire, and some new board members join in 2002 or 2003, but the pools include many of the same people across the three years. However, the study does not attempt to connect and track individuals across years. Analyses are based on separate summaries of the three years of cross-sectional data.

Figure 4.4 documents the median compensation for individual board members across foundation types and years.

- Compensated individual board members in independent foundations earn a median of roughly \$8,000 in the three study years. The median masks highly compensated board members, including the 2003 high of \$235,479. The outliers increase the average (mean) compensation among independent foundation board members to roughly \$15,700 in the three study years.
- When paid, board members in corporate foundations receive substantially less than board members in independent and community foundations. This finding again suggests an unobserved value for compensation of corporate foundation board members who receive payment from the corporation or through other corporate duties.
- As noted above, community foundations rarely compensate board members, so the findings are based on a handful of foundations. In 2001 and 2003, compensation was between \$5,000 and \$7,000. The leap in 2003 (to \$12,000) reflects the volatility of summary statistics for small numbers of cases. The difference between 2002 and 2003 is fewer foundations reporting compensation under \$5,000 in 2003, with a corresponding increase of the median for the remaining cases.

Figure 4.4. Median Compensation for Compensated Individual Board Members, by Foundation Type, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

While the median compensated board member in the study's independent foundations earns approximately \$8,000, board compensation generally increases as total annual giving increases, although the trend is not strictly linear (figure 4.5).

For foundations with less than \$1 million in annual giving, median board member compensation is around \$5,000. Between \$1 million and \$5 million in annual giving, median compensation rises to nearly \$10,000, and between \$5 million and \$50 million, it is about \$15,000. Only among the largest foundations is there an appreciable jump to approximately \$25,000.

The medians are generally comparable across the three years of the study. Exceptions can be attributed largely to changes in the pool of board members across years, most notably in the largest class of foundations. In 2002 and 2003, the data include one large foundation with more than 100 board members, which was not included in the 2001 analysis.

How prevalent is the practice of compensating board members? In each year of the study, about 2,100 foundations reported paying compensation to their individual board members.⁹ However, only 1,792 study foundations compensate indi-

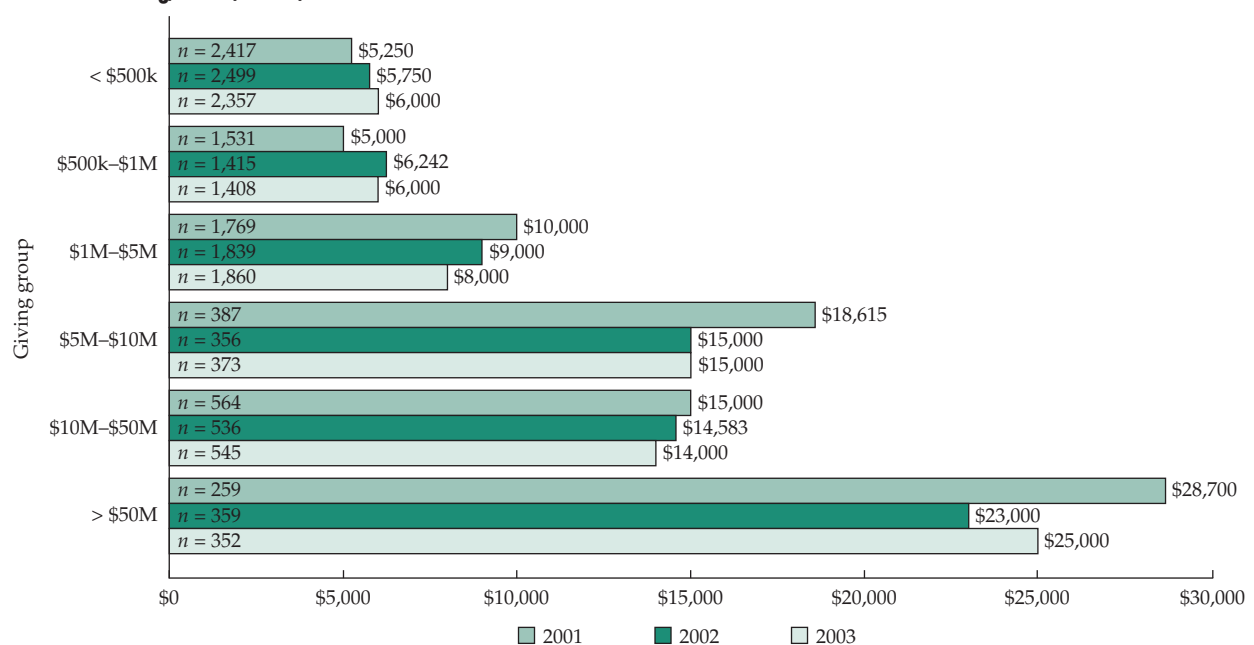
vidual board members in all three study years, and 2,571 compensate in at least one of the three years. This finding suggests that board member compensation is not a consistent practice for all foundations that have adopted the custom. Rather, some compensate individual board members when their organizational activities dictate that they should.

Which foundations compensate board members? Most compensate no one, and some have adopted the strong norm in the nonprofit sector that board members not receive compensation. Some foundations, however, were created as trusts, where compensation of board members or trustees is common. Others reflect a business culture where compensation of board members is common.

To understand the factors that are likely to influence compensation of board members, we built a logistic regression model to test possible characteristics associated with compensation.¹⁰ The characteristics examined were

- whether the foundation is staffed,
- if it pays institutional trustees,
- the type of foundation (independent, corporate, or community),

Figure 4.5. Median Compensation of Compensated Individual Board Members in Independent Foundations, by Level of Annual Giving, 2001, 2002, and 2003



Source: NCCS-Foundation Center-Guide-Star, Foundation Compensation Data Sets, 2001-03.

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- whether the foundation engages in direct charitable activities,
- if the foundation is endowed or is a pass-through foundation,
- the scope of giving,
- the value of assets in 2001, and
- the number of nonstaff board members.

Staffing and direct charitable activities are among the characteristics most strongly associated with paying compensation to nonstaff board members (table 4.1). Forty-four percent of foundations with staff compensate their board members, while only 18 percent of those without staff do so. Similarly, 40 percent of foundations with direct charitable activities compensate board members, compared with 25 percent without direct charitable activities. Without taking other factors into account, these findings suggest that foundations with staff and those that engage in direct charitable activities may have complex programs that require greater oversight by board members.

Being an independent foundation and having an endowment are moderately associated with paying compensation to individual board members. Twenty-eight percent of independent foundations pay compensation to their board,

compared with 9 percent of community and corporate foundations. Similarly, 30 percent of foundations with endowments pay compensation, compared with 10 percent of pass-through foundations. However, since larger foundations tend to be the endowed ones, the inclination to compensate individual board members may be explained as much by the size of the foundation as by whether it is considered endowed or pass-through.

Finally, the foundation's scope of giving and whether it compensates institutional trustees are not strong predictors of which foundations might compensate their individual board members. The percentage of local-scope-of-giving foundations that compensate (23 percent) is only slightly lower than foundations with national and international giving programs (26 percent). Similarly, the share of foundations with no paid institutional trustees that compensate (24 percent) is fairly similar to those that have paid institutional trustees (27 percent).

In addition to the six factors examined above, two other characteristics were entered into the regression model: size of assets and the number of board members. Although total annual giving was considered, the value is missing for a handful of foundations in the study. Asset size, however, is highly correlated with annual giving and is possibly even a more intuitively clear measure of organizational size than annual giving.¹¹ Foundations that do not compensate board members have median assets of \$5.2 million and an average of \$21.1 million. Foundations that compensate individual board members are much larger, with median assets of \$10.3 million and an average of \$83.8 million. Size clearly matters.

The number of board members is also included in the analysis to see if this factor contributed to compensation of nonstaff board members. A preliminary analysis of this factor suggests that the impact may be modest: foundations that do not compensate board members have an average of 4.6 nonstaff board members, while foundations that do compensate average 5.0. Nonetheless, a multivariate regression model is necessary to discern whether the relationship is real or spuriously related to other factors.

Table 4.1. Percentage of Foundations that Compensate Individual Board Members, by Relevant Characteristics, 2001–03 (N=2,571)

	<i>Percent</i>
Not staffed	18
Staffed	44
No paid institutional trustees	24
Has paid institutional trustees	27
Community or corporate foundation	9
Independent foundation	28
No direct charitable activities	25
Direct charitable activities	40
Endowed	30
Pass-through	10
Local scope of giving	23
Nonlocal scope of giving	26

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Figure 4.6 illustrates the results from the model, where the eight test factors are entered simultaneously to estimate their relative influence on the likelihood that a foundation compensates individual board members.¹² A key feature of this approach is that all the factors are considered at the same time, so the influence of one characteristic takes into account the influence of all the other factors in the analysis.

The results indicate that the most important predictor of whether a foundation compensates its nonstaff board members is whether a foundation is staffed. Compensation of staff strongly indicates compensation of board members. Whether a foundation is independent is nearly as strong a predictor as staffing, followed distantly by whether the foundation is endowed. Interestingly, when the eight variables are considered together, the influence of foundation size is muted. Asset size is an important predictor, but comes in fourth among the factors considered here.

Payment of an institutional trustee also suggests the payment of individual board members, but it has one-quarter the influence as whether the foundation has paid staff. A foundation's scope of giving and the number of nonstaff board members also have small effects, but their influence is very small in comparison to other factors.

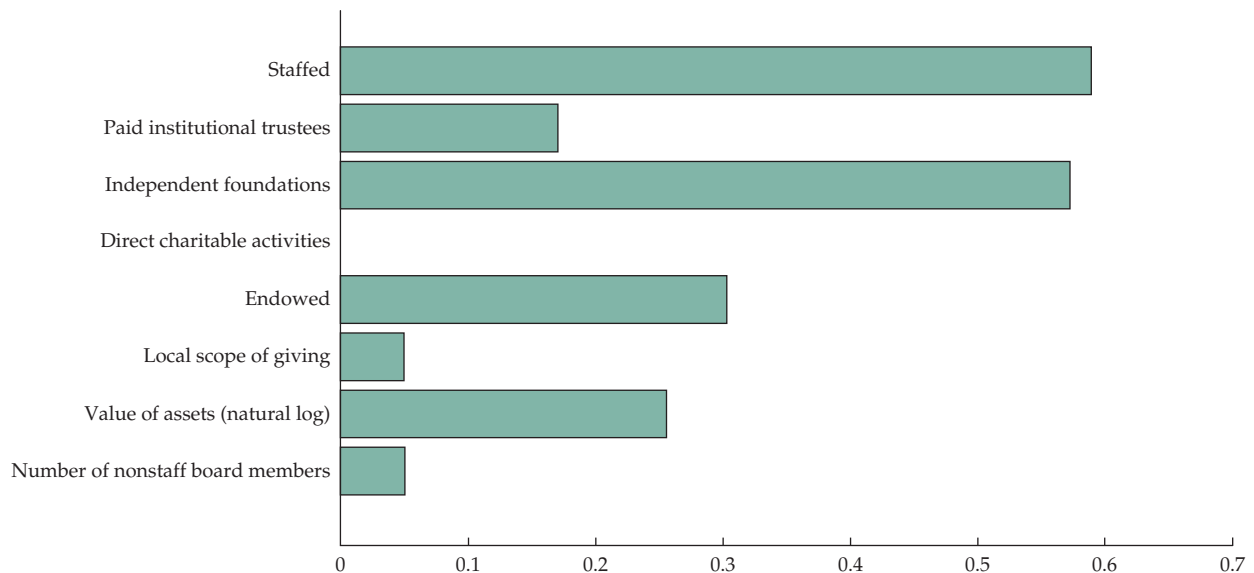
Whether the foundation participates in direct charitable activities does not help us understand which foundations choose to compensate their nonstaff board members.¹³

The results emphasize the difference in operating styles among grantmaking foundations. Foundations have various options for how to accomplish their work, and the decision to compensate individual board members can largely be traced to staffed independent foundations. However, some foundations opt to work with contractors, or to invite banks and other institutional trustees onto their list of decisionmakers. The practice of compensating institutional trustees is considered next.

Institutional Trustees

Institutional trustees are banks, law firms, management companies, and other firms that act as representatives of the foundation. In many cases, especially in smaller foundations, they are the sole representative and administrator for the foundation. Families often pay institutional trustees to handle money management, legal, reporting requirements, and other administrative affairs, leaving only grantmaking decisions to interested members. Some grantmaking foundations were

Figure 4.6. Relative Influence of Various Characteristics on Probability of Individual Board Member Compensation in Foundations, 2001–03



Source: NCCS-Foundation Center-Guide-Star, Foundation Compensation Data Sets, 2001–03.

originally organized as trusts, where a single institutional trustee was named to carry out the business of the foundation.

We identify institutional trustees by searching the name field for organizations. In many cases this is easy, such as when a bank is named. However, sometimes firms are represented by individuals, such as when a sole-proprietor lawyer is named as an institutional representative. These sole-proprietorships are not easy to discern; we have to exercise judgment on whether these firms should count as institutional trustees or as individual board members.

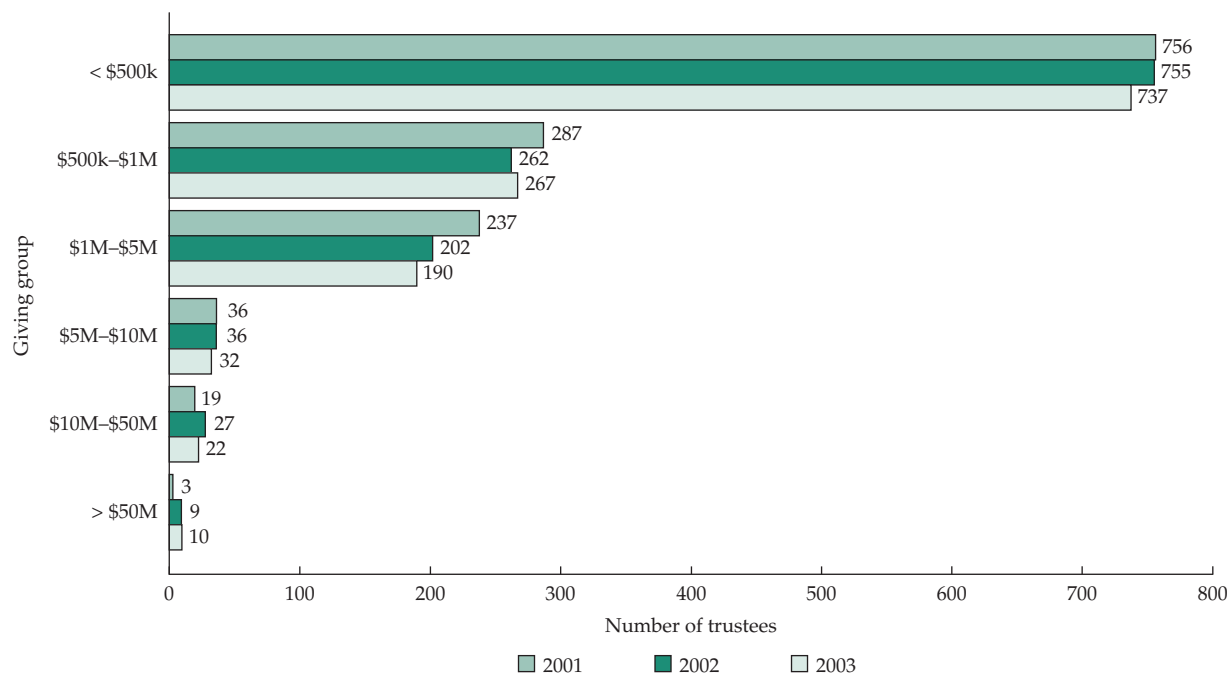
The 2006 report identified 1,340 institutional trustees among the 10,000 foundations in the study. This report uncovers only 1,291 in 2002 and 1,258 in 2003, despite an improved process to find and flag institutional trustees. In some foundations, institutional trustees in 2001 are not listed in subsequent years. In others, institutional trustees are moved from the list of “officers, directors, trustees, and key employees” (on the 2001 reporting form) to the list of “independent contractors for professional services” (in subsequent years). In these cases, the role of the sup-

porting firm does not appear to change but was listed differently on the federal form.

Interestingly, not all institutional trustees are compensated: between 6 and 7 percent were not compensated in the three study years. Some foundations have more than one institutional trustee. The 2001 median compensation of \$39,049 falls to \$36,423 in 2002 and to \$34,318 in 2003 when a contingent of larger institutional trustees were either removed from or moved on the reporting form.¹⁴ In 2001, we reported collective compensation of \$83.2 million; that number grows to \$86.0 million in 2002. However, the disappearance of several highly compensated institutional trustees brings the 2003 aggregate down to \$81.8 million.

In terms of organizational characteristics, use of institutional trustees is very strongly associated with independent foundations, foundations with no direct charitable activities, endowed foundations, and foundations with a local giving focus. Institutional trustees are not rare in staffed foundations but are most common in foundations where there are no staff members *or* individual board members. In 2003, of 1,258 institutional

Figure 4.7. Number of Institutional Trustees by Level of Foundations’ Annual Giving, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001-03.

trustees, 750 (60 percent) are listed as the sole representative of the foundation. The decision to name or engage an institutional trustee is strongly tied to the size of the foundation, as indicated by figure 4.7.

- The decline in the number of institutional trustees through the study period is spread across foundations of different sizes.
- In all three years, foundations with lower amounts of annual giving have many more cases of institutional trustees. Over half of institutional trustees work in foundations with the smallest levels of giving (less than \$500,000). In contrast, the largest giving category (\$50 million and above) had only 3, 9, and 10 institutional trustees in the three study years, respectively.

Although institutional trustees are less likely to be in larger foundations, they receive higher compensation for their work with larger foundations (figure 4.8). In 2003, foundations with annual giving below \$500,000 compensated the median institutional trustee at \$27,012, not far below the overall median of \$34,318. However, foundations with annual giving of \$5 million or

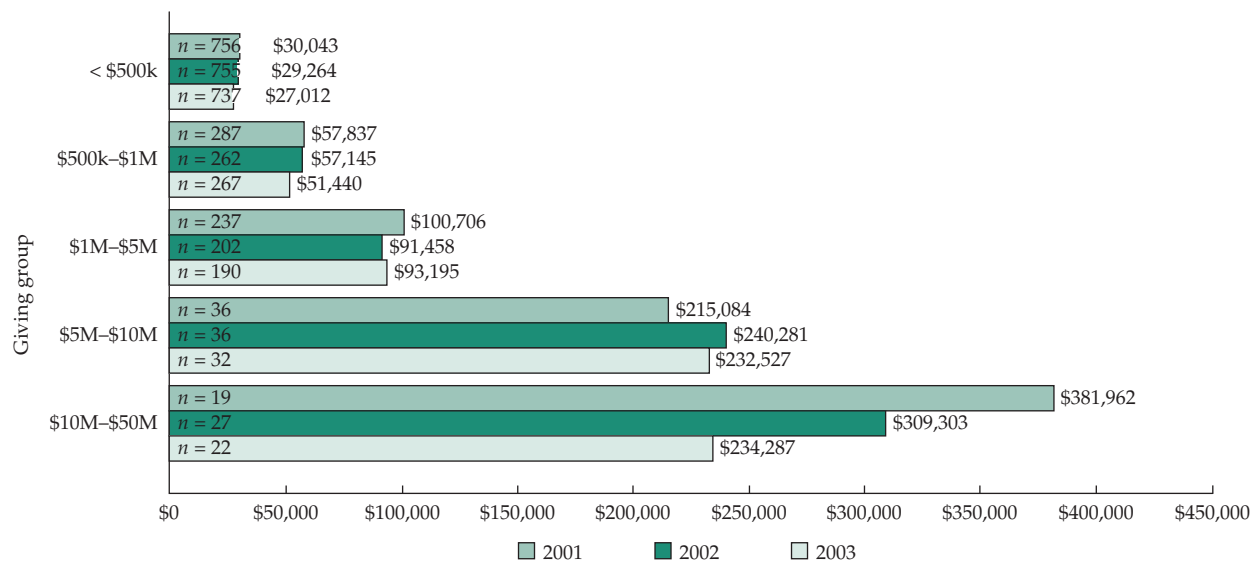
more typically paid about \$250,000 in fees to institutional trustees.

Summary

Grantmaking foundations are structured in various ways to accomplish their work, and their decisions about how to organize have consequences for how resources are allocated to compensate their workers. Most foundations do not compensate anyone. Those that do use a mix of paid staff, board members, and institutional trustees. While some foundation executives and board members—mainly those in the largest and more complex organizations—command generous compensation packages, the norm is to compensate at substantially lower levels. The higher executive staff, individual board member, and institutional trustee compensation in the largest foundations reflects the greater scope of work and time in managing the affairs of larger and more complex organizations.

Change over the three-year period is difficult to assess since the composition of boards of directors changes over time in unknown ways. Most annual change is likely due to change in the composition and compensation of boards. On the other hand, the upticks in executive staff salaries

Figure 4.8. Median Compensation for Compensated Institutional Trustees by Level of Foundations' Annual Giving, 2001, 2002, and 2003



Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Note: The number of foundations with annual giving of \$50 million or more is too few to provide a meaningful analysis and is not shown.

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in 2002 and 2003 likely represent real increases in compensation for many foundation leaders. The trend is less clear for board members, whose compensation is likely driven by factors other than cost of living increases or peer comparisons.

Outside institutions clearly play an important role in many grantmaking foundations and often serve as the only decisionmaker and actor. For some small foundations, this is likely a matter of convenience, where a busy or aging founder can pass all operations to an entity he or she believes can be relied on to serve the foundation's mission in perpetuity. In other cases, the foundation may have been originally founded under a legal requirement to name an institution as trustee over foundation (or trust) affairs. Unfortunately, the data do not allow exploration of the historical antecedents of institutions as foundation trustees. Other research may take up this interesting dimension of how foundations organize to get work done.

Key Overall Findings

- Of the 10,000 foundations studied, nearly half (48 percent) paid compensation to executive staff members, board members, or trustees.
- Foundation size influences executive compensation levels. Top executive staff members in the largest foundations earn far more than executive staff in smaller foundations.
- Type of foundation, participation in direct charitable activities, and scope of grantmaking also influence executive compensation levels.
- Among the characteristics considered in this chapter, whether a foundation is staffed has the greatest predictive influence on whether it compensates individual board members. Compensation of staff is associated with compensation of the board.
- Type of foundation is also fundamental. Although not as influential as whether the foundation is staffed, status as an independent foundation strongly influences

whether the foundation will compensate board members. Community and corporate foundations rarely compensate board members.

- While size of the foundation is important in predicting board member compensation, its influence is muted when staffing, foundation type, endowment versus pass-through status, and the payment of institutional trustees are taken into account.
- Most individual board member compensation occurs in independent foundations. Nearly one in five board members in independent foundations receives compensation. Compensation of community foundation board members is rare; compensation of anyone in corporate foundations is obscured by foundation relationships with their parent companies.
- Larger foundations tend to compensate individual board members at higher levels than smaller- or medium-sized foundations.
- In 2003, the median compensated individual board member earned \$8,000. In contrast, the median compensated institutional trustee earned \$34,318.
- When foundations have institutional trustees, those institutions are commonly the sole named representative of the foundation.
- While the majority of compensated institutional trustees work for the smallest foundations, they are paid the most when representing the largest foundations.

Notes

1. Independent and corporate foundations report compensation of officers, director, and board members (line 13); other employee salaries and wages (14); and pension plans and employee benefits (15) in Part I of Form 990-PF. Values in column (d), disbursements for charitable purposes, are defined as charitable compensation. Values in any column reflect compensation for any purpose.

Community foundations list compensation of officers and directors (line 25), other salaries and wages (26), pension plan contributions (27), other employee benefits (28), and payroll taxes (29) in Part II of Form 990. Values in

column (B), program services, are defined as charitable compensation. Additional values in (C), management and general, or (D), fundraising, reflect compensation for any purpose.

Some foundations reported compensation in some years of the study but not others. This introduced the challenge of generalizing the “three-year average” characteristic of the foundation, as described elsewhere in this report. We say that a foundation reported zero compensation, benefits, and payroll taxes if this condition is true for at least two of three years, or was zero for the final year of cases that left the panel.

2. Our definition of compensation changed in this phase of our study. In our previous analysis of 2001 data, we summed all three remuneration amounts: (1) compensation, (2) contributions to employee benefits plans and deferred compensation, and (3) expense account and other allowances. Readers suggested that “expense account and other allowances” should be thought of as reimbursements rather than compensation. After reviewing exemplary cases, we agreed, so our 2002 and 2003 analyses only include the first two elements in the calculation of compensation. The impact is small since only about 0.5 percent of compensated board members had expense accounts or other allowances in 2003, and the median non-zero value was only \$807. Consequently, we compare 2001 with 2002 and 2003 without regard for this change in approach.
3. These categories also include individuals with substantially similar titles, as well as individuals with multiple titles when one title was one of the three considered.
4. When a foundation listed more than one executive staff member (for example, both an executive director and a president who functions as a staff member), we selected the one with the highest compensation.
5. Form 990-PF Part VIII-1 asks filers to list all officers, directors, trustees, and foundation managers along with their compensation. Form 990 Part V asks filers to list all directors, board members, and key employees. Both forms include fields for name and address, title and average hours a week devoted to position, compensation, contributions to employee benefit plan and deferred compensation, and expense account and other allowances.
6. Form 990 and Form 990-PF could be improved to include checkboxes or other indications of whether foundation representatives are considered staff, board members (trustees), or both. This information would reduce the guesswork of whether an individual’s compensation should be counted for administration or governance. However, we anticipate that board members in small unstaffed foundations will always be involved with administration, so the distinction between staff and board members in the administration of foundations will remain murky even if their status is clearly defined on the Form.
7. The 2001 numbers of individuals and descriptive statistics differ slightly from the 2001 numbers reported in our 2006 report. In cleaning the 2002 and 2003 data, we uncovered a small number of individual cases that were miscoded in the prior analysis.
8. This does not mean that board member compensation fell in the sector during the study period. It only means that it fell in this panel of foundations, which got smaller every year by attrition.
9. In 2001, 2,181 foundations in the study reported compensation to their individual board members. In 2002, the number increased to 2,199; in 2003, it was 2,140.
10. The model tested is a logistic regression model, where the dependent variable is the log of the odds that a foundation compensates individual board members or not.
11. As with most organizational populations, ours is characterized by a high number of small organizations and a low number of large ones. Regression models work best when the independent variables are at least approximately normally distributed, which helps to ensure that the error terms of normally distributed. Instead of using the raw value of assets in our model, we calculate and use the natural log of assets, which has a substantially more normal distribution.
12. Comparison of relative influence of independent variables in a regression model is usually achieved through comparison of standardized coefficients. However, the maximum likelihood estimation technique of logistic regression does not yield standardized coefficients. To approximate standardized coefficients, we multiply the unstandardized coefficients by the variable’s standard deviation in each case.
13. As indicated in table 4.1, 40 percent of foundations that participate in direct charitable activities compensate individual board members, whereas 25 percent of foundations that do not participate in direct charitable activities compensate individual board members. By themselves, these statistics suggest that board compensation relates directly to foundation participation in direct charitable activities. However, figure 4.6 shows that this difference is spurious, or the result of other factors. In this case, participation in direct charitable activities is also related to the size of the staff ($r = 0.20$) and asset size ($r = 0.13$). When the model accounts for these measures of foundation size, the relationship between direct charitable activities and individual board member compensation disappears.
14. While some institutional trustees were recast as independent contractors and therefore fell out of the 2002 and 2003 analyses, others were added. Notably, the aggregate institutional trustee compensation is influenced by a large, complex foundation that paid its institutional trustees more than \$7 million in 2002 and 2003. The board members and trustees for this particular foundation were not included in the 2001 data.



Conclusions

This study's most basic and useful finding is that identifiable factors consistently and predictably influence foundations' expense and compensation patterns related to charitable activities and that these effects persist over time. Common sense may suggest as much, but the magnitude of the differences has never been documented over several years for thousands of foundations. For the first time, foundation managers, policymakers, and the public can compare one foundation's expenditure patterns to those of other foundations with similar characteristics and activities.

The lens of foundations' program-related (charitable) administrative expenditures and board and staff compensation, as reported on IRS Forms 990 and 990-PF and augmented by survey data,¹ sheds new light on how foundations work and achieve their missions. Detailed analyses reveal huge variations in foundation practices and their costs. Most foundations do not employ staff and instead rely on a mix of paid or unpaid donors and family members, employees, paid or unpaid individual board members, paid or unpaid institutional trustees, sponsoring corporations and their employees, community volunteers, and paid consultants.

Regardless of the mix of actors and factors at work in a foundation, hiring employees markedly increases a foundation's program-related administrative and compensation costs, which are part of qualifying distributions for

independent and corporate foundations or of program service costs for community foundations. This report does not examine the value added by staff who identify needs, make grant-making decisions, monitor resource use, communicate with the public, or operate a program or site. But best practices in philanthropy suggest that foundations should conduct many of these basic activities, as most foundations above a certain size already typically do.

Foundation program strategies and characteristics are determinants of how high charitable administrative expense levels are relative to the foundation's qualifying distributions. Besides staffing, the type and scale of the foundation and the scope and nature of its programs influence costs. After the research summarized here revealed which characteristics and practices were at play, further analysis showed that their impacts on expenses were consistent over time. Such activities as international giving and direct charitable programs have higher fixed costs or require more employees than most local grant-making programs, and therefore these activities cost more. Larger foundations generally incur higher compensation and program costs because their programs are bigger and probably more complex, but smaller foundations that take on such staff-intensive programs as international giving or maintaining a facility often end up with higher expense ratios than larger foundations would incur. Family foundations and pass-

through foundations incur lower charitable administrative costs relative to their qualifying distributions.

While grantmaking is a primary function of most foundations, many of the largest foundations undertake other charitable activities too. These foundations operate conference centers and museums, run fellowship and scholarship programs, conduct peer-reviewed research competitions, provide technical assistance, offer technology training, and much else. In this rapidly evolving field, many new hybrids combine elements of grantmaking with features of operating foundations. Some venture philanthropy organizations fully embrace this model. Other foundations, particularly the largest, are conducting more hands-on activities. Some foundations that have very high ratios of charitable administrative expenditures to qualifying distributions often have a complex mix of such staff-intensive activities, while others do not.

This study's findings on the extent and levels of compensation for board members provide the first large-scale documentation of this practice over time. Often, board members are compensated for "staff" work; paying them for traditional governance tasks does not appear to be a growing practice.

Among foundations that compensate board or staff, compensation levels generally vary by foundation type and size and by program complexity. Compensation costs are higher in larger foundations, where most executives earn more than executives in smaller foundations. Larger foundations that compensate board members also pay them more. (Individual compensation for chief executive officers and board members may cover both program and nonprogram activities, so findings on individual pay cannot be allocated wholly to charitable administrative costs.²)

Compensation packages of board or staff only occasionally exceed the typical amounts. (Benchmarking tables in this report's appendix enable boards and managers to compare salaries against those of similar foundations.)

Foundation management and oversight would both benefit from deeper understanding of the heterogeneity of foundation's missions and activities. Foundations' choices about pro-

gram priorities and strategies have differential impacts on expenses and on board and staff compensation. Assessing data over time reveals both 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 or compensation 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 foundation activities.

IRS Forms 990 and 990-PF—this study's main data source—have not kept up with the changing activities and costs incurred by foundations and need to be improved. Form 990-PF for independent foundations does not document relatively new categories of foundation expenses, such as technology, communications, and evaluation, nor does it adequately capture foundations' growing involvement in direct charitable activities and other nongrantmaking activities. Until those types of activities are better reported, the Form 990-PF 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. Separating staff members from board members would facilitate improvement in data on both executive and board member compensation. Also, donated labor and in-kind gifts of space, equipment, and services are not captured on the IRS forms. For these reasons, the true costs of running many family and corporate foundations cannot be precisely assessed.

Form 990 has similar drawbacks for community foundations. Filers find no categories for reporting expenses related to technology, professional consulting, evaluation, and communications. Nor are these foundations' relationships with supporting organizations and donor-advised funds adequately portrayed. With more categories, "other expenses" would not be such

an overburdened and uninformative catch-all. The proposed revision of IRS Forms 990 and 990-PF affords a welcome opportunity to fix these flaws. Some changes in the Form 990 already proposed by the IRS would greatly improve the data's utility and accuracy.

Finally, despite the data's limitations, problems with Forms 990 and 990-PF, and a short research horizon, this study marks a critical step toward more rigorous and detailed analysis of philanthropic foundations. The benefits for the foundation field and the public are potentially enormous: more informed oversight of founda-

tions, a better understanding of foundations' financial patterns over time, and a boost in public trust.

Notes

1. The Foundation Center's survey data provide programmatic and operating characteristics (such as foundation type and number of staff) not available from the Forms 990 and 990PF.
2. In endowed foundations, for example, executives may also be responsible for overseeing assets and spending policies, and in community foundations, they may be responsible for donor relations and fundraising.



Appendix

A. Methodology

Study Data Sets: This report is based on summary data from three data sets. The first is a foundation-level data set that includes the 2001, 2002, and 2003 expense data for the 10,000 largest independent, corporate, and community foundations (ranked by 2001 giving) as reported on Forms 990-PF and 990, which are filed annually with the Internal Revenue Service, and supplemented by survey research conducted by the Foundation Center. The second is a three-year average foundation-level data set that averages the key financial values, including expenses, for 2001, 2002, and 2003. The third data set consists of individual-level compensation information on more than 50,000 officers, directors, trustees, key employees, and institutional trustees reported on Forms 990-PF and 990 by the same 10,000 foundations for 2001, 2002, and 2003.

Data Providers and Sources: GuideStar supplied most of the Form 990-PF and 990 expense and compensation data for the study. The Foundation Center provided key financial data from foundation reports and foundation operating and programmatic characteristics gleaned from its annual survey and analysis of grants lists. For the top 1,000 foundations, the Foundation Center also provided all 2002 and 2003 financial and programmatic data. The National Center for Charitable Statistics at the Urban Institute filled in missing data from its core data set. Urban Institute staff

merged the data by employee identification number to create the data sets for the study.

Variables in the Analysis: For the first phase of the project in 2004, the study partners identified variables for the analysis based on data that were already available in the GuideStar and Foundation Center databases. For the second phase in 2005, the partners identified additional key data fields, chiefly components of charitable administrative expenses and qualifying distributions, which needed to be digitized for the study. (See the list of variables used in the study in section B of this appendix.) GuideStar digitized the new variables for most foundations, supplemented with work by the Foundation Center. The Urban Institute merged the new data into the data sets compiled in the initial phase of the project. In the 2006–07 phase of the study, key study variables were analyzed over three years—2001, 2002, and 2003. This allowed for research that looks at year-to-year differences. The third phase also repeated many of the first- and second-phase analyses using the three-year averaged data set, which smoothes out anomalies in any of the three years and provides a more authoritative picture of expenses over time.

Foundation-Level Data Sets: Both the individual-year (2001, 2002, 2003) and the three-year average foundation-level data sets were used for the analyses presented in chapter 2, “Components of Foundation Charitable Administrative Expenses,” and chapter 3, “Foundation Operat-

ing Characteristics and Charitable Administrative Expenses.” As in any study of this type, researchers had to deal with missing cases and missing variables as they checked the data and merged the IRS data with the survey data. For a small percentage of top 10,000 cases, 990-PF or 990 data were not available for 2001, 2002, or 2003 from GuideStar, but data were available from the Foundation Center or the National Center for Charitable Statistics. In other cases, GuideStar data and Foundation Center data from immediately surrounding years were used to fill gaps in the set (e.g., if 2003 data were unavailable, then 2004 data were used).

In the second and third phases of the study, researchers made efforts to improve the consistency of data, especially for the top 1,000 foundations. Nearly all top 1,000 foundations now have complete fiscal and programmatic records for all three study years. Included in the top 1,000 are five large jointly administered foundations (foundations that file more than one 990-PF but are administered as one foundation) that had not been in the initial 2001 dataset. Compiled by the Foundation Center from survey data and multiple tax returns, these composite foundation records replaced five smaller foundations that had missing charitable expense data. Despite efforts made to fill gaps in the larger data set, some cases still have missing values for key variables, and they were excluded from certain analyses. As a result, smaller numbers of foundations are reported in some tables and figures in the report than the total numbers of independent, corporate, and community foundations included in the study. Further, because this is a panel data set of the 10,000 largest foundations in the United States by giving in 2001, the number of foundations included in the file for 2002 and 2003 is smaller than for 2001 due to attrition. Such attrition results from foundation terminations and mergers and from foundations changing their status to operating foundations or to public charities.

Three-Year Averaged Data Set: This data set contains the same 10,000 largest foundations (based on 2001 giving) that were included in phases one and two of this study. The purpose of tracking the same foundations across three years is to examine the impact of certain foundation practices on

expenses and compensation. All key financial variables—for example, assets, giving, charitable administrative expenses, qualifying distributions, and so on—were summed for the years for which there were valid data, and an average was drawn by dividing by the number of years. Overall, there were very few changes from year to year in nonfinancial attributes such as foundation type or in operating characteristics such as geographic scope of giving or direct charitable activities. Where changes did occur, rules were developed to ensure that the attributes and operating characteristics were accurately represented. The rule most commonly applied considered a foundation in the averaged data set as having a given operating characteristic if the operating characteristic was found in two of the three years.

Community Foundations Financial Data: Because community foundations are public charities and therefore file IRS Form 990 instead of Form 990-PF, financial variables reported are not always equivalent to those for private foundations. To derive a charitable administrative expense variable for community foundations, charitable giving (that is, giving attributed to “program services” expenses, listed on Part II, lines 22 and 23, column B) was subtracted from total program expenses (Part II, line 44, column B). Similarly, the components of charitable administrative expenses are those categories listed under program services expenses (Part II, lines 24–43, column B).

Foundation Operating Characteristics Data: The Foundation Center surveys roughly the top 20,000 grantmaking foundations (ranked by giving) annually to update fiscal, operating, and programmatic data published 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 nonresponse foundations, information is compiled from foundation annual reports, grants lists, web sites, and Forms 990-PF or 990. Fiscal information (assets, gifts received, total giving, total expenses, qualifying distributions) obtained via survey is later compared and reconciled with data published in foundation annual reports and tax returns.

In the file of the top 10,000 foundations provided for this study, fiscal data fields are nearly

complete. Grantmaker fields derived from an examination of the tax return and grants lists (e.g., grantmaker type, number of grants) are also fairly complete. Grantmaker fields that depend on survey responses or special research (e.g., number of staff, geographic scope, establishment year) are not as complete. (See list of variables used in the study in section B of this appendix.)

Foundations that Compensate: To assess the influence of foundation compensation patterns on charitable operating and administrative expenses, foundations that compensate some recipients and report aggregate compensation as part of their qualifying distributions are separated from foundations that do not. This recipient might be a staff, board member, or institutional trustee, and the compensation might take the form of a salary, remuneration for expenses, or a pension plan. A private foundation, which files Form 990-PF, was said to compensate when the sum of Part I, lines 13 (compensation of officers, directors, and trustees), 14 (other employee salaries and wages), and 15 (pension plans and employee benefits), for column d (disbursements for charitable purposes) was greater than zero. A community foundation, which files Form 990, was said to compensate if the sum of Part II, lines 25–29 (same items) in column B (program services) was greater than zero.

Foundations with Staff: To measure the effect of staffing on foundation charitable operating and 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 2001) indicated that the foundation had one or more paid staff members, then the foundation was marked as staffed. In the absence of survey data, Form 990-PF was examined. If Part I, line 14, column a (other employee salaries and wages) 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 foundation was marked as staffed. Because not all foundations responded to the Foundation Center’s survey and examining

Forms 990 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, foundations of the same type and size were grouped according to staff size. For staffed foundations that responded to the Foundation Center survey, which represented the vast majority in the data set, staff size was taken directly from the survey. For foundations identified as staffed that did not report a staff number in the survey, an algorithm was developed for calculating staff size based on data reported by other staffed foundations of the same type and of similar size.

Pass-Through Foundations: Some foundations retain few or no assets but instead award grants from yearly or periodic gifts to the foundation. For example, many corporate foundations receive money directly from the parent company to award as grants. Similarly, a number of independent foundations—mainly younger foundations—receive regular gifts from living donors. For these foundations, the amount of qualifying distributions paid in the latest year may exceed year-end assets, because the foundation simply does not retain assets. To assess the impact of maintaining or not maintaining assets on levels of charitable operating and administrative expenses, foundations whose qualifying distributions exceeded 25 percent of the value of their year-end assets were identified as “pass-through” foundations.

Individual Compensation Data Set: The third study data set consists of the individual officers, directors, trustees, key employees, and institutional trustees reported in sections 1 and 2 of part VIII of Form 990-PF and Part V and part 1 of Schedule A of Form 990. Most of the raw data was provided by GuideStar. Three years of data allowed for the improvement of the dataset in ways unavailable in Phase II, when only one year of data was analyzed. Specifically, for individual-level data in foundations that were unavailable to or otherwise missing from GuideStar, other-year data were used as a proxy. When a case was known to be active, but was missing data for 2002, 2003 data were used. When known active but missing in 2003, 2002 data were used. When

known active but missing both 2002 and 2003, 2001 data were used. The original 2001 data set was not altered or improved; it is missing individual level data for 41 foundations. The resulting individual-level data files had 51,533 cases in 2001, 52,553 cases in 2002, and 51,192 cases in 2003.

In addition to names and titles, foundations are asked to list the average amount of time these people spend with the organization weekly, compensation amounts, and contributions to benefit plans. A major feature of this study is the division of named individuals into categories of staff and nonstaff board members. This coding process required judgments about whether compensated individuals not listed as staff members were functioning primarily as program and administrative staff or governance trustees. To ensure that the coding decisions for 2002 and 2003 were consistent with the 2001 decisions, 2001 coding decisions were used as a major criterion in determining the 2002 and 2003 codes.

Many reasonable assumptions were made to sort the individuals mechanically, and then forms were inspected and cases that were ambiguous were coded. Most cases were coded under the simple assumption that uncompensated individuals are functioning as board members. In this study, one must receive compensation to be considered as a staff member.

For compensated individuals, it was initially assumed that individuals receiving less than \$20,000 in compensation were not staff members; they were coded as board members. In contrast, it was initially assumed that individuals receiving over \$100,000 in compensation were staff members. Finally, titles that tended strongly to be associated with board members and that tended to be associated strongly with staff members were identified. After coding based on these assumptions and the classification of titles, several hundred individuals were still undetermined. They worked for a staffed foundation, received more than \$20,000 in compensation, and had titles that were ambiguous. To resolve these cases, the actual forms were examined, or coding decisions in previous years were consulted. Additionally, a review of initial assumptions regarding compensation levels was also conducted, and those cases where staff members

received very low compensation or board members received unusually high compensation were recoded.

Coding decisions were based on a thoughtful review of titles relative to others in the foundation, the number of hours worked (not reported in the data file, but clear on most forms), receipt of employee benefits relative to other individuals, the names of individuals in obvious family foundations, and occasional other subtle clues. No single factor differentiated employees from board members, but consideration of the combination of clues led to “staff” versus “nonstaff board member” decisions.

In 2001, institutional trustees (i.e., banks or other companies that manage the affairs of the foundation) were identified by reviewing titles and flagging others by inspection of forms. For 2002 and 2003, GuideStar instituted its own process for flagging institutional trustees, which it noted in the raw data files.

By the end of the coding process, individuals and institutions were sorted as staff members, individual board members, or institutional trustees. A coding process of this kind contains a certain degree of error. Nevertheless, by applying knowledge of foundation operations and closely analyzing actual forms, a sorting system that reasonably differentiates major categories of foundation workers was developed.

For the analysis of compensation among executive managers, disparate titles were reviewed, and those that clearly fit into categories of executive director, president, and chief executive officer were harmonized. The analysis was restricted to staff members, so presidents coded as board members were not included. Some foundations had more than one individual, so the one per foundation that had the highest salary was selected. Consequently, this investigation is as much an organizational-level as it is an individual-level analysis. The analysis of executive managers is challenged by the fact that some foundations do not provide a full list of employees. Also, many executive managers are coded as board members, especially when they work part time in small foundations and double as members of the governing board.

Much of the individual board member and institutional trustee analyses in chapter 4 is based on an aggregation of the individual-level data rather than the individual-level data itself. That is, for each foundation, the number of individually coded board members and their compensation at the foundation level was summed and added to the foundation-level data set. The individual-level data set enabled us to ask and answer questions about how much people and institutional trustees make in compensation. The foundation-level data set gave the opportunity to ask and answer questions about which foundations compensate board members and how much they pay in aggregate compensation to staff versus individual board members and institutional trustees.

B. List of Variables

Key Financial Variables in the Foundation-Level Data Set

Aggregate Compensation: The total amount paid in salaries and wages, pension plans, and other employee benefits reported as a part of a foundation's charitable operating and administrative expenses. For private foundations, this figure is taken from Form 990-PF, Part I, sum of lines 13–15, column d. For community foundations, it comes from Form 990, Part II, sum of lines 25–29, column B.

Assets: Cash, stocks, bonds, real estate, or other holdings of a foundation. The fair-market value of a foundation's assets was used in some parts of this report as a proxy for size. Foundations were divided into six asset groups. For private foundations, this figure comes from Form 990-PF, Introduction, line I. For community foundations, it is taken from Form 990, Part IV, line 59, column B.

Charitable Expenses as a Percentage of Qualifying Distributions: After averaging charitable operating and administrative expenses and qualifying distributions for each foundation, a foundation's averaged charitable expenses over qualifying distributions ratio is represented by its averaged charitable expenses divided by its averaged qualifying distributions.

Charitable Operating and Administrative Expenses: Expenses related to carrying out a foundation's charitable mission, including grant administrative expenses. For private foundations, this figure is taken from Form 990-PF, Part I, line 24, column d. For community foundations, which do not report this line item, a proxy was developed using total program expenses minus giving. This comes from Form 990, Part II, line 44 minus the sum of lines 22 and 23, column B.

Qualifying Distributions: Qualifying distributions are all disbursements that are counted toward the payout requirement for private foundations. The payout requirement is 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 market value of its assets. The components of payout include grants, program-related investments, set-asides, charitable administrative expenses, and amounts paid to acquire assets used for charitable purposes. Private foundations report their qualifying distributions in Form 990-PF, Part XII, line 4. Community foundations are not subject to the 5 percent payout regulation and therefore do not report qualifying distributions. For comparative purposes, a proxy was developed using total program expenses. This comes from Form 990, Part II, line 44, column B.

Total Giving: The total amount paid out by foundations in the form of grants and contributions. In this report, this information was another proxy for foundation size. For private foundations, this figure is taken from Form 990-PF, Part I, line 25, column d. For community foundations, it comes from Form 990, Part II, sum of lines 22 and 23, column B.

Key Operating Characteristics Provided by the Foundation Center for the Foundation-Level Data Set

Establishment Year: The year that the foundation was created or, for nonresponse foundations, the initial year that it filed a tax return. In this study, foundations were grouped into four age groups: before 1950; 1950 to 1969; 1970 to 1989; and since 1990.

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

Foundation Type: Depending on the source of their funds, nonoperating private foundations are identified as either independent or company-sponsored. Independent foundations shown to have substantial donor-family involvement (either self-reported or using objective criteria) are sub-coded as family foundations. Community foundations, which are legally defined as public charities and usually file Form 990, are identified through self-reporting and through listings shared with the Council on Foundations and other national tracking groups.

Geographic Scope: Depending on the scope of their grantmaking, foundations are coded as local (either giving within their local community or within a few designated states), national, national/international, or international.

Grants to Individuals: Total giving amount paid directly to individuals.

Number of Grants: Includes grants to organizations and individuals.

Number of Staff: Number of full-time, part-time, or unspecified paid staff.

Program Expenses: Expenditures for foundation-sponsored programs and other direct charitable activities reported by private and community foundations.

Program Related Investments/Loans: The amount reported by private and community foundations.

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

Key Variables in the Individual-Level Data Set

Compensation: The sum of compensation, contributions to employee benefit plans and deferred compensation, and expense accounts and other allowances, as reported by private foundations in Part VIII of Form 990-PF and community foundations in Part V of Form 990.

Executives: Presidents, chief executive officers, and executive directors who regularly spend a

substantial amount of time operating the affairs of a foundation.

Individual Board Members: Members of a foundation governing board who spend a limited amount of time primarily providing governance for the organization.

Institutional Trustees: Institutions, such as banks, providing management and investment services to foundations. Managerial roles may include managing assets, keeping books, providing legal representation, and filing regulatory documents.

Other Key Terms Used in the Report¹

Community Foundations: Tax-exempt, non-profit, autonomous, publicly supported philanthropic institutions composed primarily of permanent funds established by many separate donors for the long-term diverse, charitable benefit of the residents of a defined geographic area. Typically, a community foundation serves an area no larger than a state. Community foundations provide an array of services to donors who wish to establish endowed funds without incurring the administrative and legal costs of starting independent foundations.

Corporate Foundations: Private charitable organizations that derive their funds primarily from the contributions of profit-making parent businesses. Although closely tied to their company sponsors, they are separate legal entities and subject to the same rules and regulations as other private foundations.

Direct Charitable Activities: Foundation-administered programs, including technical assistance to grantees, maintenance of facilities for charitable purposes, operation of nonprofit resource centers, research, fellowship and scholarship programs, award programs, conferences, and others.

Endowments: Bequests or gifts intended to be kept permanently and invested to provide income for continued support of a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period or until sufficient assets have been accumulated to achieve a designated purpose.

Family Foundations: A subset of independent foundations within which legal responsibility for the direction of the foundation rests to a large degree with family members.

Independent Foundations: Charitable organizations for which an individual or a family usually provides assets in the form of gifts or bequests that are held as an endowment. Because of the narrow base of their support, independent foundations are subject to the private foundation laws, intended to assure they serve the public good.

Operating Foundations: Another type of private foundation that primarily operates programs. The source of their assets is usually an individual or a small group of donors, and therefore, they are subject to most of the same rules and regulations as independent foundations. However, they accomplish their charitable purposes largely by running their own programs rather than through making grants. (Because of their different purposes and expense patterns,

operating foundations are not examined in this study.)

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

Private Foundations: Nongovernmental, non-profit organizations with funds (usually from a single source, such as an individual, family, or corporation) and programs that are managed by their own board members, trustees or staff members and established to maintain or aid, primarily through grantmaking, social, educational, religious, or other charitable activities serving the common welfare.

Note

1. The definitions in this section were provided in Council on Foundations, *Glossary of Philanthropic Terms* (Washington, DC: Council on Foundations, 2003).

C. Benchmarking Tables

The following benchmarking tables provide comparative information for independent, corporate, and community foundations on charitable administrative expenses as a percentage of qualifying distributions, selected components of expenses, and the compensation levels of foundation trustees and chief executives, in finer detail than reported in the study graphs. These tables permit users to find means, medians, and ranges of charitable administrative expenditures, mean and

median amounts of expense components, and mean, median, and maximum compensation levels for various sizes and types of 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 A.1. Charitable Administrative Expenses as a Percentage of Qualifying Distributions for Independent Foundations, 2001–03

	Staffed Foundations ^a				Unstaffed Foundations				All Independent Foundations ^b			
	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %
Giving level^c												
Under \$500,000	712	13.5	9.2	0.0–94.9	4,051	2.9	0.7	-1.4–75.1	4,763	4.5	1.0	1.4–94.9
\$500,000 to \$1M	493	11.3	8.7	0.0–77.9	1,346	2.5	0.6	0.0–38.3	1,839	4.9	1.4	0.0–77.9
\$1M to \$5M	795	9.8	7.4	0.0–71.9	969	2.1	0.3	0.0–46.3	1,764	5.6	2.3	0.0–71.9
\$5M to \$10M	168	8.9	7.0	0.0–58.9	67	2.0	0.3	0.0–28.4	235	6.9	4.6	0.0–58.9
\$10M to \$50M	144	9.1	8.3	0.0–34.2	32	2.3	0.1	0.0–42.6	176	7.9	6.6	0.0–42.6
Over \$50M	38	8.3	6.0	0.8–32.5	2	—	—	—	40	8.2	6.0	0.0–32.5
Asset level^d												
Under \$1M	107	12.2	4.5	0.0–77.9	1,117	1.3	0.1	-1.4–75.1	1,224	2.2	0.1	1.4–77.9
\$1M to \$10M	785	11.1	7.3	0.0–80.9	3,862	2.8	0.7	0.0–52.6	4,647	4.2	1.1	0.0–80.9
\$10M to \$50M	891	11.2	8.2	0.0–94.9	1,359	3.3	1.4	0.0–60.6	2,250	6.5	3.2	0.0–94.9
\$50M to \$200M	409	11.0	8.4	0.0–89.6	121	2.9	0.9	0.0–31.2	530	9.1	6.6	0.0–89.6
\$200M to \$500M	89	10.9	8.8	0.5–48.5	6	8.6	2.4	0.0–42.6	95	10.8	8.6	0.0–48.5
Over \$500M	69	10.2	8.7	0.8–43.6	2	—	—	—	71	10.1	8.7	0.8–43.6

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

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

a. In this study, staffing is determined by combining information from Form 990-PF for private foundations and Form 990 for community foundations with an annual survey of foundations conducted by the Foundation Center. Organizations that report employee salaries, wages, or pension plans/employee benefits and did not report any employees to the Foundation Center in the survey are unstaffed.

b. The number of foundations in this table does not represent all independent foundations in the study but only those that reported nonmissing values for charitable expenses. Excluded are 21 independent foundations that did not report charitable expenses.

c. In this table and in the following three tables, giving levels represent total grants paid. For private foundations, data come from Form 990-PF, Part I, line 25, column D. For community foundations, data come from Form 990, Part II, lines 22–23, column B.

d. In this table, tables A.2–A.3, and tables A.5–A.7, asset categories represent the fair-market value of a foundation's assets. For private foundations, data are from Form 990-PF, Introduction, line I. For community foundations, data are from Form 990, Part IV, line 59, column B.

Table A.2. Charitable Administrative Expenses as a Percentage of Qualifying Distributions for Corporate Foundations, 2001–03

	Staffed Foundations				Unstaffed Foundations				All Corporate Foundations ^a			
	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %
Giving level												
Under \$500,000	50	8.3	0.8	0.0–51.9	247	2.2	0.1	0.0–62.5	297	3.2	0.2	0.0–62.5
\$500,000 to \$1M	34	5.9	0.5	0.0–79.7	112	1.3	0.1	0.0–15.3	146	2.4	0.2	0.0–79.7
\$1M to \$5M	100	5.2	1.0	0.0–83.8	122	2.0	0.1	0.0–55.4	222	3.5	0.1	0.0–83.8
\$5M to \$10M	33	4.5	1.6	0.0–29.1	24	1.0	0.1	0.0–6.1	57	3.0	0.4	0.0–29.1
\$10M to \$50M	41	5.9	1.4	0.0–60.9	15	1.8	0.7	0.0–7.7	56	4.8	0.9	0.0–60.9
Over \$50M	5	0.6	0.1	0.0–2.6	2	—	—	—	7	0.9	0.1	0.0–3.4
Asset level												
Under \$1M	48	3.4	0.1	0.0–44.8	176	2.2	0.0	0.0–62.5	224	2.5	0.0	0.0–62.5
\$1M to \$10M	91	6.3	1.0	0.0–79.7	243	1.6	0.1	0.0–37.9	334	2.9	0.2	0.0–79.7
\$10M to \$50M	85	5.7	1.3	0.0–83.8	82	1.7	0.3	0.0–33.5	167	3.8	0.6	0.0–83.8
\$50M to \$200M	32	7.3	4.4	0.0–54.7	20	2.3	0.7	0.0–10.8	52	5.4	3.4	0.0–54.7
\$200M to \$500M	7	10.5	0.6	0.0–60.9	1	—	—	—	8	9.7	2.2	0.0–60.9
Over \$500M	0	—	—	—	0	—	—	—	0	—	—	—

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

Notes: See footnotes for table A.1. on independent foundations for definitions of key terms. Data are not reported if there are two or fewer foundations in a category.

a. The number of foundations in this table does not represent all corporate foundations in the study but only those that reported nonmissing values for charitable expenses. Excluded are 9 corporate foundations that did not report charitable expenses.

Table A.3. Charitable Administrative Expenses as a Percentage of Qualifying Distributions for Community Foundations, 2001–03

	Staffed Foundations				Unstaffed Foundations				All Community Foundations ^a			
	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %	N	Mean %	Median %	Range %
Giving level												
Under \$500,000	64	13.6	4.6	0.0–95.7	7	15.7	0.0	0.0–100.0	71	13.8	3.8	0.0–100
\$500,000 to \$1M	55	15.7	7.8	0.0–100.0	3	0.2	0.0	0.0–0.6	58	14.9	7.6	0.0–100
\$1M to \$5M	111	10.7	6.5	0.0–100.0	2	—	—	—	113	10.5	6.5	0.0–100
\$5M to \$10M	23	6.9	6.2	0.0–18.6	0	—	—	—	23	6.9	6.2	0.0–18.6
\$10M to \$50M	44	8.5	7.3	0.7–31.6	0	—	—	—	44	8.5	7.3	0.7–31.6
Over \$50M	7	7.8	4.6	0.0–26.4	0	—	—	—	7	7.8	4.6	0.0–26.4
Asset level												
Under \$1M	0	—	—	—	1	—	—	—	1	—	—	—
\$1M to \$10M	81	11.3	4.3	0.0–53.1	7	15.8	0.0	0.0–100	88	11.7	3.7	0.0–100
\$10M to \$50M	138	12.9	7.2	0.0–100.0	4	1.3	0.0	0.0–5.4	142	12.6	6.0	0.0–100
\$50M to \$200M	52	9.8	6.5	0.0–80.8	0	—	—	—	52	9.8	6.6	0.0–80.8
\$200M to \$500M	21	8.8	7.9	0.7–31.6	0	—	—	—	21	8.8	7.9	0.7–31.6
Over \$500M	12	9.9	8.6	0.0–26.4	0	—	—	—	12	9.9	8.7	0.0–26.4

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

Notes: See footnotes for table A.1. on independent foundations for definitions of key terms. Data are not reported if there are two or fewer foundations in a category.

a. The number of foundations in this table represents all community foundations in the study, since all community foundations reported nonmissing values for charitable expenses.

Table A.4. Charitable Administrative Expenses as a Percentage of Qualifying Distributions for Staffed Foundations by Staffing Levels and Foundation Type, 2001–03

		Giving Group													
		< \$500K		\$500K–\$1M		\$1M–\$5M		\$5M–\$10M		\$10M–\$50M		> \$50M		Overall	
		Median %	N	Median %	N	Median %	N	Median %	N	Median %	N	Median %	N	Median %	N
Independent foundations	Number of staff ^a														
	1	6.7	365	5.9	201	3.9	186	1.7	16	2.0	8	—	0	5.1	776
	2 to 3	12.1	268	11.5	164	7.8	280	3.8	48	2.9	15	—	1	9.1	776
	4 to 14	13.5	78	11.6	127	9.3	322	9.1	96	6.9	81	1.1	9	9.1	713
	15 to 50	—	1	—	1	39.8	6	24.9	7	14.3	39	5.4	14	13.9	68
	Over 50	—	0	—	0	—	1	—	1	—	1	14.6	14	15.9	17
	All	9.2	712	8.7	493	7.4	795	7.0	168	8.3	144	5.9	38	7.9	2,350
Corporate foundations	Number of staff														
	1	0.3	22	0.2	11	0.0	22	0.0	6	—	1	—	0	0.2	62
	2 to 3	7.1	25	0.5	16	0.8	52	1.6	13	0.0	9	—	0	0.9	115
	4 to 5	—	1	11.7	5	4.8	21	0.2	6	4.3	9	—	2	3.1	44
	6 to 8	—	1	—	2	0.0	5	0.0	5	4.9	11	—	1	2.4	25
	9 or more	—	1	—	0	—	0	6.2	3	3.5	11	—	2	4.3	17
	All	0.8	50	0.5	34	1.0	100	1.6	33	1.4	41	0.1	5	0.9	263
Community foundations	Number of staff														
	1	1.8	10	13.4	3	—	2	—	0	—	0	—	0	3.3	15
	2 to 3	0.4	43	7.6	26	3.0	22	—	0	—	0	—	0	4.1	91
	4 to 5	17.9	11	3.5	19	4.7	41	5.2	6	5.5	3	—	0	5.5	80
	6 to 8	—	0	29.0	5	7.0	29	3.3	3	—	1	—	0	7.2	38
	9 or more	—	0	—	2	19.5	17	7.5	14	7.7	40	4.6	7	8.7	80
	All	4.6	64	7.8	55	6.5	111	6.2	23	7.3	44	4.6	7	6.6	304

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

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

a. If 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 instances, a foundation was classified as staffed because it reported employee compensation on Form 990-PF or Form 990, but it did not report number of staff to the Foundation Center. In these cases, a number estimator was devised to approximate the number of staff.

Table A.5. Selected Components of Charitable Administrative Expenses for Independent Foundations, 2001–03
(thousands of dollars)

		Asset Group						Overall
		< \$1M	\$1M–\$10M	\$10M–\$50M	\$50M–\$200M	\$200M–\$500M	> \$500M	
Total compensation^a	Mean \$	75.6	32.0	83.1	321.6	981.2	5,652.4	229.4
	Median \$	11.3	13.7	44.0	227.2	862.6	2,431.0	30.0
	# reporting	127	1,501	1,187	413	88	71	3,387
	% reporting ^b	10.2	32.1	52.5	77.9	92.6	98.6	38.2
Legal fees	Mean \$	3.3	5.7	11.1	24.5	39.8	160.3	14.5
	Median \$	0.9	1.4	2.6	7.4	19.5	53.6	2.3
	# reporting	242	1,155	920	368	87	70	2,842
	% reporting	19.4	24.7	40.7	69.4	91.6	97.2	32
Accounting fees	Mean \$	2.5	3.2	6.7	17.1	29.4	63.4	6.6
	Median \$	1.3	1.9	4.0	11.4	18.3	33.8	2.5
	# reporting	457	2,411	1,365	409	82	68	4,792
	% reporting	36.7	51.6	60.3	77.2	86.3	94.4	54.0
Other professional expenses	Mean \$	2.5	3.2	6.7	17.1	29.4	63.4	103.9
	Median \$	1.3	1.9	4.0	11.4	18.3	33.8	8.1
	# reporting	457	2,411	1,365	409	82	68	2,149
	% reporting	36.7	51.6	60.3	77.2	86.3	94.4	24.2
Interest	Mean \$	0.7	5.7	26.8	70.9	569.5	346.0	47.3
	Median \$	0.0	0.2	1.0	2.5	344.7	51.1	0.4
	# reporting	18	101	74	37	4	12	246
	% reporting	1.4	2.2	3.3	7.0	4.2	16.7	2.8
Taxes	Mean \$	1.9	3.0	7.3	18.7	58.7	90.0	9.3
	Median \$	0.2	0.9	3.6	10.6	32.3	31.7	2.0
	# reporting	223	846	677	275	55	38	2,114
	% reporting	17.9	18.1	29.9	51.9	57.9	52.8	23.8
Occupancy	Mean \$	22.8	13.8	21.4	53.9	187.8	883.0	77.8
	Median \$	5.7	4.9	10.8	30.9	108.2	348.7	13.9
	# reporting	40	337	494	298	73	63	1,305
	% reporting	3.2	7.2	21.8	56.2	76.8	87.5	14.7
Travel and conferences	Mean \$	15.6	9.0	11.3	33.1	93.6	750.2	42.1
	Median \$	3.6	1.5	3.1	12.8	52.7	259.1	3.5
	# reporting	106	724	778	344	82	70	2,104
	% reporting	8.5	15.5	34.4	64.9	86.3	97.2	23.7
Printing and publications	Mean \$	6.2	2.3	3.8	12.4	50.3	276.8	19.0
	Median \$	0.1	0.1	0.4	3.9	12.8	95.6	0.4
	# reporting	102	477	444	213	65	60	1,361
	% reporting	8.2	10.2	19.6	40.2	68.4	83.3	15.3
Other expenses	Mean \$	13.5	9.1	26.8	122.2	424.8	2,187.8	59.3
	Median \$	0.2	0.5	4.2	40.7	167.8	581.0	1.5
	# reporting	611	2,699	1,644	468	93	72	5,587
	% reporting	49.0	57.8	72.6	88.3	97.9	100.0	62.9

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

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.

a. Total compensation, Form 990-PF, Part I, sum of lines 13–15, column D.

b. Percent reporting represents the percentage of foundations reporting the given type of expense out of all foundations within the size group.

Table A.6. Selected Components of Charitable Administrative Expenses for Corporate Foundations, 2001–03
(thousands of dollars)

		Asset Group					
		< \$1M	\$1M–\$10M	\$10M–\$50M	\$50M–\$200M	\$200M–\$500M	Overall
Total compensation^a	Mean \$	22.6	72.1	106.4	363.0	5,904.3	183.2
	Median \$	5.5	12.3	44.3	228.3	5,904.3	23.7
	# reporting	22	66	45	16	2	151
	% reporting ^b	9.2	19.5	26.6	30.2	25.0	18.7
Legal fees	Mean \$	1.8	4.6	11.8	127.8	30.2	30.5
	Median \$	0.4	2.2	2.6	2.9	11.7	2.2
	# reporting	13	34	32	19	5	103
	% reporting	5.4	10.1	18.9	35.8	62.5	12.8
Accounting fees	Mean \$	2.6	3.9	11.4	19.1	65.2	8.7
	Median \$	1.4	1.8	3.9	13.7	30.9	2.5
	# reporting	41	95	62	24	5	227
	% reporting	17.2	28.1	36.7	45.3	62.5	28.1
Other professional expenses	Mean \$	84.1	39.6	126.4	344.8	2,137.7	189.6
	Median \$	3.2	9.6	46.6	69.1	773.0	19.1
	# reporting	27	43	45	28	4	147
	% reporting	11.3	12.7	26.6	52.8	50.0	18.2
Taxes	Mean \$	1.4	4.4	10.9	27.8	—	7.0
	Median \$	0.2	1.5	6.4	17.6	—	0.8
	# reporting	43	40	29	11	0	123
	% reporting	18.0	11.8	17.2	20.8	—	15.2
Occupancy	Mean \$	15.5	14.6	52.5	12.1	345.8	49.7
	Median \$	15.5	5.3	8.6	9.4	345.8	9.0
	# reporting	2	8	7	7	2	26
	% reporting	0.8	2.4	4.1	13.2	25.0	3.2
Travel and conferences	Mean \$	31.9	23.1	14.7	48.5	345.2	36.7
	Median \$	1.5	3.7	4.8	13.9	114.8	4.2
	# reporting	16	38	26	20	3	103
	% reporting	6.7	11.2	15.4	37.7	37.5	12.8
Printing and publications	Mean \$	11.5	4.2	76.7	45.2	849.8	51.9
	Median \$	0.1	0.6	3.2	7.6	19.4	1.1
	# reporting	29	39	31	20	3	122
	% reporting	12.1	11.5	18.3	37.7	37.5	15.1
Other expenses	Mean \$	26.3	53.8	175.1	1,466.4	9,741.2	306.8
	Median \$	0.5	2.4	7.2	107.1	161.5	2.4
	# reporting	125	169	102	38	5	439
	% reporting	52.3	50.0	60.4	71.7	62.5	54.4

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

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

a. Total compensation, Form 990-PF, Part I, sum of lines 13–15, column D.

b. Percent reporting represents the percent of foundations reporting the given type of expense out of all foundations within the size group.

Table A.7. Selected Components of Charitable Administrative Expenses for Community Foundations, 2001–03
(thousands of dollars)

		Asset Group					Overall
		< \$10M	\$10M–\$50M	\$50M–\$200M	\$200M–\$500M	> \$500M	
Total compensation^a	Mean \$	49.5	128.0	362.8	791.1	2,269.0	341.9
	Median \$	35.4	66.7	272.1	683.0	1,600.9	126.1
	# reporting	38	96	48	21	11	214
	% reporting ^b	43.2	67.6	90.6	100.0	91.7	67.5
Accounting fees	Mean \$	5.0	5.5	9.2	6.6	13.4	6.6
	Median \$	4.4	2.9	3.9	5.7	12.8	3.8
	# reporting	21	42	12	13	7	95
	% reporting	23.9	29.6	22.6	61.9	58.3	30.0
Legal fees	Mean \$	1.5	3.4	11.2	15.6	37.4	9.5
	Median \$	1.2	1.5	3.3	10.0	16.4	2.8
	# reporting	15	41	17	15	9	97
	% reporting	17.0	28.9	32.1	71.4	75.0	30.6
Occupancy	Mean \$	5.0	12.1	43.5	73.0	274.1	42.4
	Median \$	2.8	7.4	26.7	56.0	276.0	10.0
	# reporting	29	68	34	18	11	160
	% reporting	33.0	47.9	64.2	85.7	91.7	50.5
Printing and publications	Mean \$	3.3	11.1	19.5	36.0	59.5	17.3
	Median \$	1.9	4.3	11.1	24.9	38.6	6.1
	# reporting	34	66	36	18	11	165
	% reporting	38.6	46.5	67.9	85.7	91.7	52.1
Travel and conferences	Mean \$	3.5	17.1	20.1	45.1	122.6	24.8
	Median \$	1.6	3.8	9.7	28.9	90.2	6.0
	# reporting	36	71	42	21	11	181
	% reporting	40.9	50.0	79.2	100.0	91.7	57.1
Interest	Mean \$	2.1	31.7	233.6	9.9	193.8	95.5
	Median \$	0.7	0.3	1.8	0.5	119.3	1.3
	# reporting	3	13	9	5	3	33
	% reporting	3.4	9.2	17.0	23.8	25.0	10.4
Depreciation	Mean \$	5.0	19.5	41.5	26.4	415.4	48.5
	Median \$	1.6	4.4	16.4	16.8	87.3	6.2
	# reporting	30	56	22	10	9	127
	% reporting	34.1	39.4	41.5	47.6	75.0	40.1
Other expenses	Mean \$	73.3	257.8	401.2	1,089.6	1,747.4	386.4
	Median \$	29.8	62.8	205.2	558.5	998.1	97.5
	# reporting	54	105	45	21	11	236
	% reporting	61.4	73.9	84.9	100.0	91.7	74.4

Source: NCCS-Foundation Center-GuideStar, Foundation Expense Data Set, 2001–03.

Note: Selected expenses in this table are arranged in the order they are reported in Form 990, Part II, lines 25–43, column B. Some expense categories in the Form 990 are not shown in the table above because too few foundations reported such expenses to merit their inclusion.

a. Total compensation, Form 990, Part II, sum of lines 25–29, column B.

b. Percent reporting represents the percent of foundations reporting the given type of expense out of all foundations within the size group.

Table A.8. Executive Compensation, 2001, 2002, and 2003

	2001				2002				2003			
	N	Mean \$	Median \$	Max \$	N	Mean \$	Median \$	Max \$	N	Mean \$	Median \$	Max \$
Giving level												
Up to \$500,000	165	55,794	43,638	249,188	172	58,148	44,956	490,285	170	61,670	48,521	765,068
\$500,000 to \$1M	165	78,810	69,997	230,650	161	81,374	71,867	358,661	166	86,118	74,764	257,206
\$1M to \$5M	370	112,007	97,576	935,120	398	116,336	100,000	974,978	415	119,879	103,938	647,962
\$5M to \$10M	132	156,717	150,894	491,594	127	170,206	156,250	462,362	131	179,665	164,991	584,319
\$10M to \$50M	138	251,384	209,348	1,997,550	154	241,191	219,914	1,925,146	158	251,331	230,796	910,882
\$50M and higher	36	406,752	411,942	778,246	40	435,313	399,111	1,025,104	39	545,178	466,030	2,295,315
Foundation type												
Community	243	94,431	75,348	937,852	264	101,055	80,227	638,597	264	106,559	86,582	694,007
Corporate	37	103,826	81,732	517,728	37	114,215	82,474	563,854	42	113,985	99,320	583,319
Independent	729	147,264	113,859	1,997,550	751	152,693	118,500	1,925,146	773	163,155	122,400	2,295,315
Independent foundations by giving level												
Up to \$500,000	103	59,728	49,000	249,188	109	62,834	49,998	490,285	110	66,472	52,891	765,068
\$500,000 to \$1M	119	87,337	84,687	230,650	114	90,361	83,207	358,661	118	94,787	83,690	257,206
\$1M to \$5M	272	122,316	105,785	935,120	293	127,377	110,000	974,978	303	130,275	115,587	647,962
\$5M to \$10M	99	171,234	165,966	491,594	95	184,898	174,727	462,362	101	191,799	174,836	584,319
\$10M to \$50M	104	263,404	219,023	1,997,550	107	258,743	229,763	1,925,146	109	275,259	247,199	910,882
\$50M and higher	31	423,040	445,466	778,246	33	453,022	451,291	1,025,104	32	586,672	525,516	2,295,315
Community foundations by giving level												
Up to \$500,000	52	52,117	41,998	217,919	52	52,349	45,390	186,804	50	55,197	49,521	198,286
\$500,000 to \$1M	40	54,507	56,501	127,878	45	61,002	57,990	185,865	45	65,442	58,058	183,581
\$1M to \$5M	87	80,205	77,553	165,918	94	83,964	80,780	243,317	96	90,320	87,270	260,291
\$5M to \$10M	27	105,220	107,309	265,029	22	118,338	113,139	161,708	21	123,365	119,967	188,185
\$10M to \$50M	30	210,591	188,072	937,852	44	187,557	188,354	336,286	45	192,820	192,500	327,089
\$50M and higher	5	—	—	—	7	—	—	—	7	—	—	—
Direct charitable activities												
Foundations with no direct charitable activities	903	118,306	95,750	1,449,459	863	123,571	98,000	1,925,146	893	127,871	100,865	733,899
Foundations with direct charitable activities	103	260,611	190,790	1,997,550	189	206,006	150,000	1,025,104	186	241,124	157,522	2,295,315
Endowed												
Endowed foundations	926	135,936	101,921	1,997,550	979	140,173	106,780	1,925,146	1,004	149,046	109,508	2,295,315
Pass-through foundations	80	97,455	75,000	436,502	73	114,344	80,000	446,696	75	125,267	97,836	714,687
Geographic scope of grantmaking												
Local grantmaking focus	798	116,861	92,395	1,997,550	834	120,162	95,000	974,978	852	127,315	100,000	1,756,619
National grantmaking focus	133	192,020	136,401	1,449,459	127	216,926	143,414	1,925,146	129	233,264	156,876	2,295,315
International or national/international	58	225,214	163,369	1,084,085	65	218,600	168,017	821,190	71	224,993	164,991	919,110
Executive title												
Executive director	544	87,079	75,000	411,720	562	94,343	76,453	425,000	562	98,416	83,149	451,602
President and/or CEO	465	186,608	144,153	1,997,550	490	188,890	144,566	1,925,146	517	200,634	150,000	2,295,315

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Notes: This table reports on staff executive compensation as described in chapter 4. It includes individual compensation and contributions to individual employee benefit plans and deferred compensation. Individuals are included if coded as staff members with title of executive director, president, or chief operating officer. Descriptive statistics for categories with less than 20 cases are omitted because they are based on too few cases to be reliable. Accordingly, corporate foundations by giving level are not provided because too few cases allow for a meaningful breakdown.

Table A.9. Individual Board Member Compensation, 2001

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	19,017	1,395	13.2	2,512	10,564	5,000	138,000
\$500,000 to \$1M	9,690	2,034	16.0	1,553	12,693	5,000	123,565
\$1M to \$5M	11,857	2,835	15.3	1,813	18,539	9,800	174,576
\$5M to \$10M	2,646	3,448	15.3	404	22,580	17,536	150,000
\$10M to \$50M	2,653	4,782	22.2	588	21,577	15,000	176,670
\$50M and higher	565	17,238	45.8	259	37,604	28,700	211,538
Foundation type							
Community	5,614	48	0.6	32	8,348	5,250	31,827
Corporate	5,448	238	3.2	173	7,497	2,400	91,414
Independent	35,389	3,107	19.6	6,927	15,876	8,000	211,538
Independent foundations by giving level							
Up to \$500,000	16,144	1,622	15.0	2,417	10,836	5,250	138,000
\$500,000 to \$1M	7,879	2,480	19.4	1,531	12,761	5,000	123,565
\$1M to \$5M	8,086	4,104	21.9	1,769	18,758	10,000	174,576
\$5M to \$10M	1,585	5,635	24.4	387	23,080	18,615	150,000
\$10M to \$50M	1,309	9,464	43.1	564	21,966	15,000	176,670
\$50M and higher	386	25,232	67.1	259	37,604	28,700	211,538
Foundation worker configuration^a							
Unstaffed and no one compensated	20,475	0	0	116 ^b	—	—	—
Staffed by paid employees	21,111	3,430	20.5	4,324	16,746	8,800	211,538
Compensated institutional trustees only	975	0	0	38 ^b	—	—	—
Compensated individual board members only	3,359	8,720	63.7	2,139	13,694	6,600	152,033
Both compensated institutional trustees and individual board members	603	13,226	86.7	523	15,250	7,859	136,203
Direct charitable activities							
Foundations with no direct charitable activities	44,780	2,234	14.8	6,612	15,128	7,264	211,538
Foundations with direct charitable activities	1,648	6,905	31.4	517	22,010	14,500	137,170
Endowed							
Endowed foundations	37,229	2,871	18.1	6,727	15,889	8,000	211,538
Pass-through foundations	9,199	492	4.4	402	11,255	4,064	157,398
Geographic focus of grantmaking							
Local grantmaking focus	37,496	2,338	15.3	5,745	15,260	7,500	174,576
National grantmaking focus	5,016	3,108	17.8	893	17,458	10,000	211,538
International or national/international focus	1,589	3,226	21.9	348	14,730	6,000	176,670

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Note: The 2001 numbers of individuals and descriptive statistics differ slightly from the 2001 numbers reported in the 2006 report. In cleaning the 2002 and 2003 data, we uncovered a small number of individual cases that were miscoded in the previous analysis.

a. “Foundation worker configuration” divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees and individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2001, 154 individual board members received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed) or foundations that compensate institutional trustees only. Because of this change in status, the data are not presented.

Table A.10. Individual Board Member Compensation, 2002

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	19,636	1,445	13.1	2,582	10,711	5,500	108,333
\$500,000 to \$1M	8,949	2,272	16.2	1,449	13,631	6,100	123,565
\$1M to \$5M	12,016	2,875	15.7	1,883	17,954	9,000	173,329
\$5M to \$10M	2,665	3,070	13.7	364	22,480	15,000	166,669
\$10M to \$50M	2,783	4,120	20.2	562	20,403	14,000	211,733
\$50M and higher	715	14,459	50.2	359	28,797	23,000	220,637
Foundation type							
Community	5,689	76	0.8	47	9,164	6,892	33,546
Corporate	5,307	191	2.8	148	6,635	2,500	84,825
Independent	35,768	3,143	19.6	7,004	15,675	8,231	220,637
Independent foundations by giving level							
Up to \$500,000	16,829	1,662	14.8	2,499	10,914	5,750	108,333
\$500,000 to \$1M	7,273	2,763	19.5	1,415	13,774	6,242	123,565
\$1M to \$5M	8,113	4,205	22.7	1,839	18,078	9,000	173,329
\$5M to \$10M	1,708	4,753	20.8	356	22,802	15,000	166,669
\$10M to \$50M	1,307	8,664	41.0	536	21,128	14,583	211,733
\$50M and higher	538	19,216	66.7	359	28,797	23,000	220,637
Foundation worker configuration^a							
Unstaffed and no one compensated	20,413	0	0	76 ^b	—	—	—
Staffed by paid employees	21,363	3,373	20.4	4,368	16,320	8,960	211,733
Compensated institutional trustees only	915	0	0	23 ^b	—	—	—
Compensated individual board members only	3,472	9,051	63.8	2215	14,057	7,000	220,637
Both compensated institutional trustees and individual board members	601	12,369	86.0	517	14,331	8,000	127,067
Direct charitable activities							
Foundations with no direct charitable activities	43,751	2,263	14.9	6,514	14,859	7,500	211,733
Foundations with direct charitable activities	2,328	4,814	22.7	685	21,033	12,113	220,637
Endowed							
Endowed foundations	37,690	2,905	18.1	6,824	15,737	8,500	220,637
Pass-through foundations	9,074	433	4.1	375	10,166	4,000	140,800
Geographic focus of grantmaking							
Local grantmaking focus	37,358	2,401	15.5	5,777	15,187	7,796	173,329
National grantmaking focus	4,984	2,992	17.5	874	16,694	9,406	220,637
International or national/international focus	1,672	3,266	20.7	346	15,623	7,500	211,733

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

a. “Foundation worker configuration” divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees and individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2002, 99 individual board members received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed) or foundations that compensate institutional trustees only. Because of this change in status, the data are not presented.

Table A.11. Individual Board Member Compensation, 2003

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	19,095	1,424	12.7	2,425	11,200	6,000	115,776
\$500,000 to \$1M	8,935	2,136	16.1	1,439	13,234	6,000	177,418
\$1M to \$5M	11,784	2,770	16.1	1,893	17,225	8,000	159,996
\$5M to \$10M	2,536	3,306	15.1	382	21,948	14,917	200,000
\$10M to \$50M	2,906	4,050	20.0	581	20,259	13,200	235,479
\$50M and higher	686	15,137	51.3	352	29,500	25,000	190,038
Foundation type							
Community	5,509	87	0.7	37	13,017	12,000	29,103
Corporate	5,072	216	2.8	140	7,817	3,500	99,547
Independent	35,361	3,053	19.5	6,895	15,631	8,000	235,479
Independent foundations by giving level							
Up to \$500,000	16,527	1,618	14.3	2,357	11,327	6,000	115,776
\$500,000 to \$1M	7,249	2,602	19.4	1,408	13,365	6,000	177,418
\$1M to \$5M	8,101	3,964	23.0	1,860	17,239	8,000	159,996
\$5M to \$10M	1,578	5,235	23.6	373	22,146	15,000	200,000
\$10M to \$50M	1,405	8,220	38.8	545	21,190	14,000	235,479
\$50M and higher	501	20,727	70.3	352	29,500	25,000	190,038
Foundation worker configuration^a							
Unstaffed and no one compensated	19,966	0	0	100 ^b	—	—	—
Staffed by paid employees	21,038	3,362	20.8	4,370	16,185	8,870	235,479
Compensated institutional trustees only	960	0	0	17 ^b	—	—	—
Compensated individual board members only	3,374	8,775	61.9	2088	14,180	7,361	177,418
Both compensated institutional trustees and individual board members	604	11,198	82.3	497	13,609	7,500	127,956
Direct charitable activities							
Foundations with no direct charitable activities	42,878	2,231	14.9	6,376	14,980	7,646	235,479
Foundations with direct charitable activities	3,064	4,517	22.7	696	19,883	12,000	190,038
Endowed							
Endowed foundations	37,277	2,841	18.1	6,754	15,667	8,459	235,479
Pass-through foundations	8,665	410	3.7	318	11,119	4,000	146,400
Geographic focus of grantmaking							
Local grantmaking focus	36,802	2,336	15.3	5,639	15,228	8,000	200,000
National grantmaking focus	4,928	3,015	17.9	881	16,829	9,501	157,598
International or national/international focus	1,594	3,234	21.9	349	14,770	6,000	190,038

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

a. “Foundation worker configuration” divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees and individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2003, 117 individual board members received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed) or foundations that compensate institutional trustees only. Because of this change in status, the data are not presented.

Table A.12. Institutional Trustee Compensation, 2001

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	756	29,923	93.5	707	31,997	30,043	216,692
\$500,000 to \$1M	287	54,685	93.4	268	58,562	57,837	248,014
\$1M to \$5M	237	111,959	93.2	221	120,065	100,706	695,963
\$5M to \$10M	36	213,364	88.9	32	240,034	215,084	699,240
\$10M to \$50M	19	—	89.5	17	—	—	—
\$50M and higher	3	—	100	3	—	—	—
Foundation type							
Community	5	—	100	5	—	—	—
Corporate	72	29,030	79.2	57	36,669	17,319	269,519
Independent	1,261	64,152	94.1	1,186	68,208	39,634	1,468,999
Foundation worker configuration^a							
Unstaffed and no one compensated	76	0	0	27 ^b	—	—	—
Staffed by paid employees	235	110,964	89.8	211	123,585	61,869	1,468,999
Compensated institutional trustees only	786	53,148	98.5	774	53,972	34,963	1,085,265
Compensated individual board members only	20	0	0	17 ^b	—	—	—
Both compensated institutional trustees and individual board members	223	62,826	99.1	221	63,394	46,783	393,528
Direct charitable activities							
Foundations with no direct charitable activities	1,329	59,341	93.2	1,239	63,652	38,956	1,468,999
Foundations with direct charitable activities	9	472,065	100	9	472,065	409,405	1,416,206
Endowed							
Endowed foundations	1,246	65,304	94.1	1,172	69,427	40,136	1,468,999
Pass-through foundations	92	18,961	82.6	76	22,952	7,866	269,519
Geographic scope of grantmaking							
Local grantmaking focus	1,189	62,948	93.9	1,117	67,006	39,270	1,468,999
National grantmaking focus	88	71,355	89.8	79	79,484	44,568	699,240
International or national/international focus	15	—	93.3	14	—	—	—

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Note: Descriptive statistics for categories with less than 20 cases are omitted because they are based on too few cases to be reliable. An exception is foundations with direct charitable activities, which is included to illustrate the comparison.

a. “Foundation worker configuration” divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees or individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2001, 44 institutional trustees received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed) or foundations that compensate individual board members only. Because of this change in status, the data are not presented.

Table A.13. Institutional Trustee Compensation, 2002

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	755	28,736	94.6	714	30,346	29,264	134,057
\$500,000 to \$1M	262	56,732	95.4	250	59,455	57,145	197,760
\$1M to \$5M	202	107,954	95.0	192	113,576	91,458	643,480
\$5M to \$10M	36	213,287	86.1	31	247,689	240,281	956,030
\$10M to \$50M	27	301,539	81.5	22	370,071	309,303	1,334,968
\$50M and higher	9	—	100.0	9	—	—	—
Foundation type							
Community	4	—	0	—	—	—	—
Corporate	65	26,899	84.6	55	31,789	21,066	240,281
Independent	1,222	69,019	95.2	1,163	72,461	37,052	7,182,301
Foundation worker configuration^a							
Unstaffed and no one compensated	43	0	0	7 ^b	—	—	—
Staffed by paid employees	236	146,794	91.1	215	161,132	61,386	7,182,301
Compensated institutional trustees only	781	48,510	98.5	769	49,204	32,258	956,030
Compensated individual board members only	4	0	0	2 ^b	—	—	—
Both compensated institutional trustees and individual board members	227	58,452	99.1	225	58,971	42,266	343,719
Direct charitable activities							
Foundations with no direct charitable activities	1,274	64,544	94.7	1,206	68,130	36,254	7,182,301
Foundations with direct charitable activities	17	226,797	70.6	12	321,295	93,809	1,166,840
Endowed							
Endowed foundations	1,209	69,768	95.0	1,149	73,350	37,388	7,182,301
Pass-through foundations	82	21,232	84.1	69	25,232	8,443	240,281
Geographic scope of grantmaking							
Local grantmaking focus	1,155	59,516	94.5	1,091	62,953	36,419	1,334,968
National grantmaking focus	75	198,976	93.3	70	213,189	40,614	7,182,301
International or national/international focus	13	—	92.3	12	—	—	—

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Note: Descriptive statistics for categories with less than 20 cases are omitted because they are based on too few cases to be reliable. An exception is foundations with direct charitable activities, which is included to illustrate the comparison.

a. "Foundation worker configuration" divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees or individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2002, nine institutional trustees received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed) or foundations that compensate individual board members only. Because of this change in status, the data are not presented.

Table A.14. Institutional Trustee Compensation, 2003

	<i>Overall (includes uncompensated)</i>			<i>Compensated Only</i>			
	<i>N</i>	<i>Mean \$</i>	<i>% compensated</i>	<i>N</i>	<i>Mean \$</i>	<i>Median \$</i>	<i>Max \$</i>
Giving level							
Up to \$500,000	737	26,817	92.5	682	28,979	27,012	136,380
\$500,000 to \$1M	267	54,346	95.1	254	57,127	51,440	558,100
\$1M to \$5M	190	102,759	92.1	175	111,567	93,195	630,489
\$5M to \$10M	32	257,541	87.5	28	294,332	232,527	956,030
\$10M to \$50M	22	359,066	100.0	22	359,066	234,287	1,313,418
\$50M and higher	10	—	100.0	10	—	—	—
Foundation type							
Community	1	—	100.0	1	—	—	—
Corporate	59	28,880	81.4	48	35,498	19,241	283,638
Independent	1,198	66,871	93.7	1,122	71,400	34,839	7,279,871
Foundation worker configuration^a							
Unstaffed and no one compensated	43	0	0	10 ^b	—	—	—
Staffed by paid employees	230	146,093	92.2	212	158,497	56,684	7,279,871
Compensated institutional trustees only	750	47,193	96.3	722	49,023	29,929	956,030
Compensated individual board members only	2	0	0	—	—	—	—
Both compensated institutional trustees and individual board members	233	53,750	97.4	227	55,171	39,538	317,781
Direct charitable activities							
Foundations with no direct charitable activities	1,243	63,129	93.0	1,156	67,880	34,084	7,279,871
Foundations with direct charitable activities	15	223,319	100.0	15	223,319	80,123	1,077,603
Endowed							
Endowed foundations	1,186	67,778	93.7	1,111	72,353	35,675	7,279,871
Pass-through foundations	72	19,926	83.3	60	23,912	7,518	283,638
Geographic scope of grantmaking							
Local grantmaking focus	1,121	57,507	93.2	1,045	61,689	34,537	1,313,418
National grantmaking focus	80	187,179	92.5	74	202,356	32,389	7,279,871
International or national/international focus	14	—	92.9	13	—	—	—

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

Note: Descriptive statistics for categories with less than 20 cases are omitted because they are based on too few cases to be reliable. An exception is foundations with direct charitable activities, which is included to illustrate the comparison.

a. "Foundation worker configuration" divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees or individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. In 2003, 10 institutional trustees received compensation in foundations that were subsequently best coded as foundations that do not compensate anyone (unstaffed). Because of this change in status, the data are not presented.

Table A.15. Foundation-Level Individual Board Member Compensation, 2001, 2002, and 2003

	2001		2002		2003	
	<i>N</i>	<i>% compensated</i>	<i>N</i>	<i>% compensated</i>	<i>N</i>	<i>% compensated</i>
Giving level						
Up to \$500,000	951	18.4	988	19.2	925	18.1
\$500,000 to \$1M	493	23.9	490	23.9	483	23.7
\$1M to \$5M	539	25.5	539	25.7	545	26.1
\$5M to \$10M	86	27.3	76	24.2	78	25.2
\$10M to \$50M	82	29.3	77	27.6	80	28.9
\$50M and higher	30	54.5	29	53.7	29	53.7
Foundation type						
Community	10	3.2	19	6.0	12	3.8
Corporate	61	7.6	50	6.3	49	6.2
Independent	2,110	23.8	2,130	24.1	2,079	23.7
Independent foundations by giving level						
Up to \$500,000	923	19.3	960	20.1	903	19.0
\$500,000 to \$1M	482	26.0	474	25.7	470	25.6
\$1M to \$5M	522	29.4	521	29.5	528	30.0
\$5M to \$10M	76	32.3	72	30.6	74	31.9
\$10M to \$50M	77	43.5	74	41.8	75	42.9
\$50M and higher	30	73.2	29	72.5	29	72.5
Foundation worker configuration^a						
Unstaffed and no one compensated	55 ^b	—	40 ^b	—	59 ^b	—
Staffed by paid employees	1,115	38	1,103	37.8	1,096	37.7
Compensated institutional trustees only	27 ^b	—	22 ^b	—	14 ^b	—
Compensated individual board members only	765	91.3	815	97.5	759	91.2
Both compensated institutional trustees and individual board members	219	95.2	219	95.2	212	92.2
Direct charitable activities						
Foundations with no direct charitable activities	2,055	21.4	2,072	21.6	2,010	21.1
Foundations with direct charitable activities	126	33.6	127	34.1	130	35.1
Endowed						
Endowed foundations	2,012	25.8	2,043	26.3	2,002	25.8
Pass-through foundations	169	7.7	156	7.2	138	6.5
Geographic scope of grantmaking						
Local grantmaking focus	1,797	22.2	1,832	22.7	1,782	22.2
National grantmaking focus	228	23.9	225	23.6	222	23.4
International or national/international focus	60	24.9	59	24.5	55	22.8

Source: NCCS-Foundation Center-GuideStar, Foundation Compensation Data Sets, 2001–03.

a. “Foundation worker configuration” divides the study foundations into five mutually exclusive categories based on staffing and decisions to compensate board members and institutional trustees. Foundations that are staffed by employees may also compensate institutional trustees or individual board members. Foundations that are unstaffed and in which no one is compensated have unpaid board members and trustees.

b. All categories in this table are based on a three-year average from 2001 to 2003. Items with a “b” illustrate categories where one-year values do not correspond to our coding of how foundations were ultimately coded over the three-year study period. Because of this change in status, the data are not presented.

