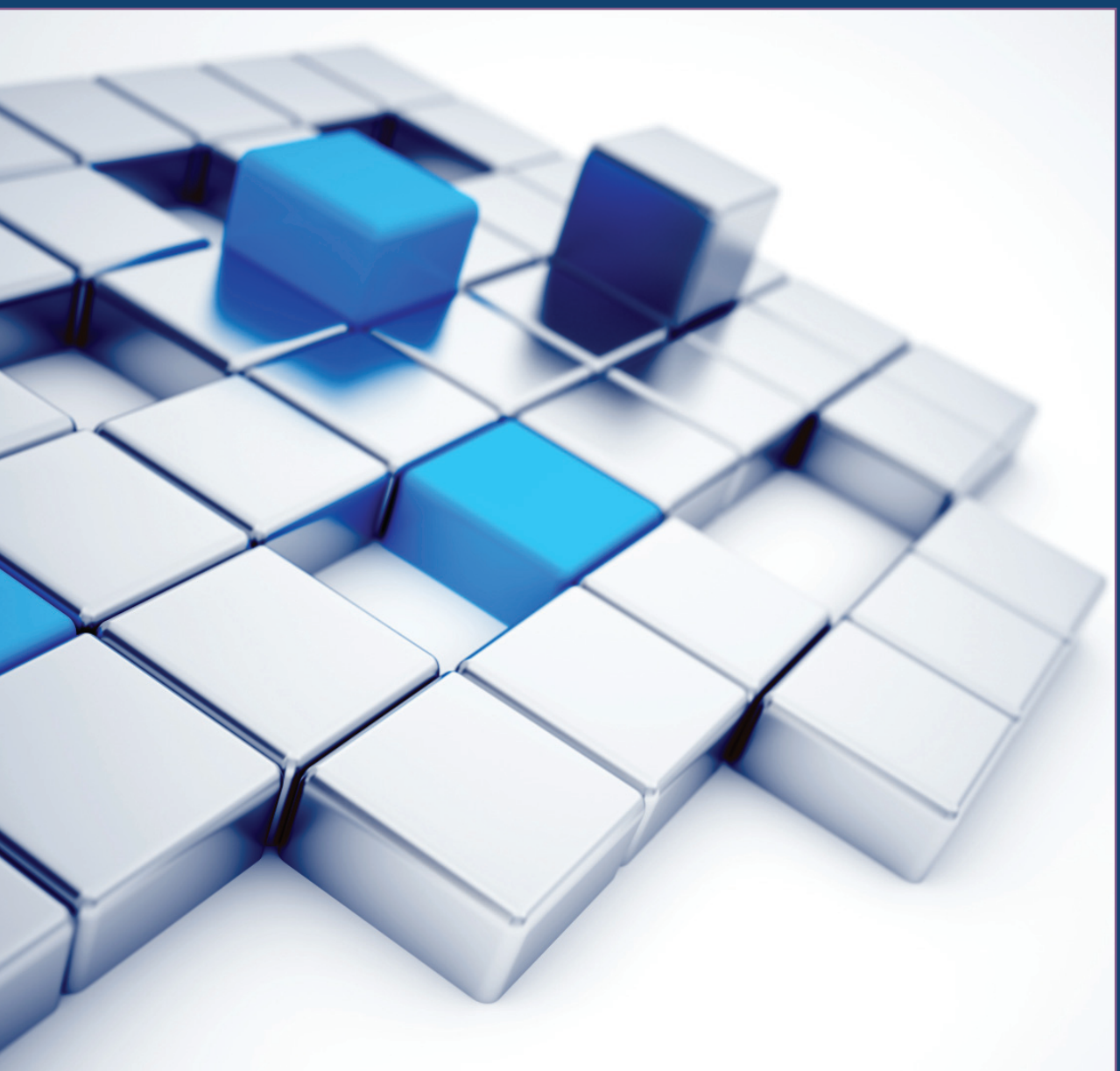
COUNCIL *on* FOUNDATIONS

Foundation Management Series ▪ 2010 Edition

Governance & Administrative Expenses: Key Findings

Prepared in Cooperation with the Foundation Center



Board Composition & Compensation

Board Composition & Compensation **enables grantmakers to benchmark their board composition against peers in the field by board member age, gender, race/ethnicity, family membership, and other characteristics. The study also provides resources for benchmarking board compensation and expense practices. The full report is available for purchase at www.cof.org/store.**

Foundations reported a median of 12 board members for 2009.

A total of 517 independent and family, community, and public foundations provided detailed information on their board demographics. Community and public foundations reported larger median board sizes than independent and family foundations.

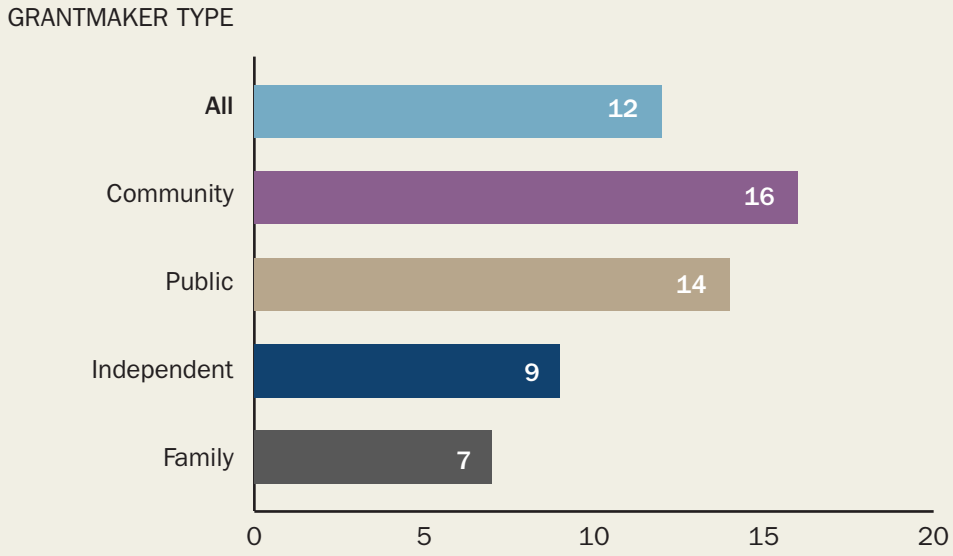
Foundation board members in 2009 were most likely to be white, male, and over age 50, regardless of foundation type or size.

Family foundations reported a larger than average share of their board members coming from the non-Hispanic white population group but came close to reporting parity between male and female board members. Family foundations—along with smaller foundations (less than $10 million in assets)—were also more likely to report board seats held by individuals in the under 50 age ranges.

Approximately two-thirds of family foundation board seats were held by family members in 2009.

Among independent foundation survey respondents, about 32 percent continued to report donor family members on their boards, and they held 6.8 percent of independent foundation board seats overall.

Median Size of Governing Boards by Grantmaker Type, 2009



Source: Council on Foundations, *Board Composition and Compensation*, 2010. Based on responses of 517 foundations.

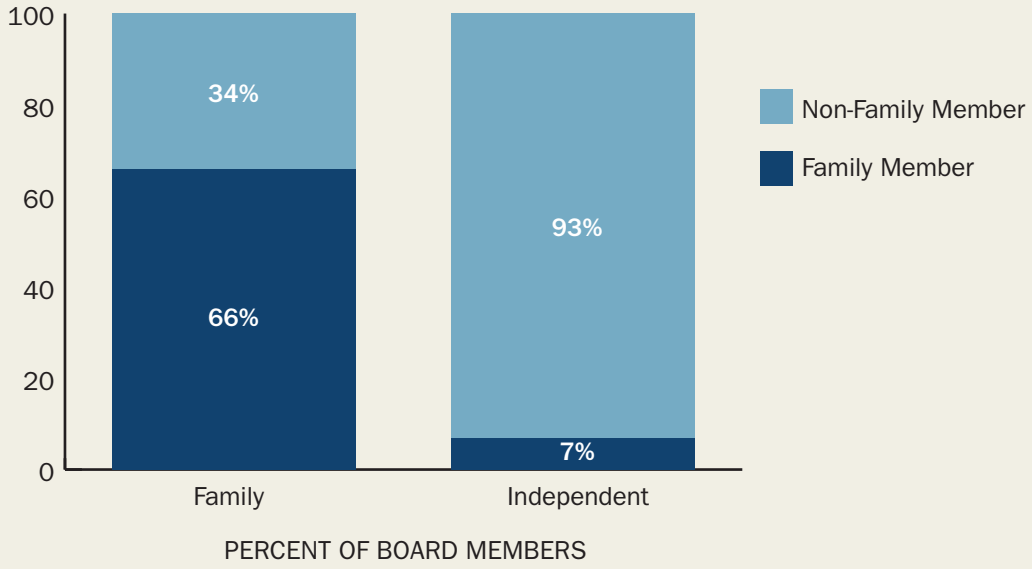
Less than one-quarter of foundations compensated their board members in 2009.

The largest respondents—those holding at least $250 million in assets—were in general more likely to provide compensation to some or all of their board members. By foundation type, independent foundations were far more likely to provide compensation (58.7 percent), while only a handful of community foundation respondents reported providing compensation to board members (1.4 percent). The median per meeting board chair and member compensation was $1,000, while the median fee per committee meeting was $650 for chairs and $500 for other members. The median annual fee for board chairs was $18,000, compared to $10,000 for other members.

About half of foundations provided reimbursement for expenses incurred while conducting foundation business.

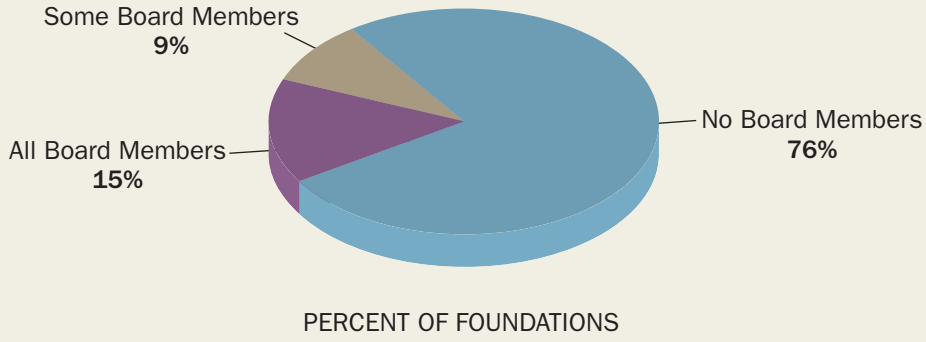
Larger foundations as well as independent and family foundations were most likely to report providing this type of compensation in 2009.

Composition of Governing Boards by Donor Family Membership, 2009



Source: Council on Foundations, *Board Composition and Compensation*, 2010. Based on responses of 504 foundations. A total of 6,494 board members were reported.

Compensation Provided for Board Service, 2009



Source: Council on Foundations, *Board Composition and Compensation*, 2010. Based on responses of 518 foundations. Figures exclude foundation staff who also serve on the foundation board.

Administrative & Investment Expenses

Administrative & Investment Expenses **offers resources for independent and family foundations to benchmark their charitable administrative and investment expenses against peers in the field by foundation type, giving range, and staff size. For community foundations, the study provides the means for benchmarking program expenses. The full report is available for purchase at www.cof.org/store.**

Administrative expenses represented a median 15.8 percent share of qualifying charitable distributions for staffed independent and family foundation respondents in 2008.[1]

Higher staffing levels and a greater likelihood of funding nationally and/or internationally contributed to higher levels of administrative expenses among the 234 survey respondents.

Staffed independent and family foundations giving at higher levels benefit from economies of scale with their charitable administrative expenses.

For respondents that gave at least $25 million in 2008, charitable administrative expenses represented a median 11.2 percent share of qualifying distributions, compared to a median 29.2 percent share for respondents reporting less than $500,000 in giving.

Median investment expenses totaled 0.6 percent of net non-charitable use assets for staffed independent and family foundations.

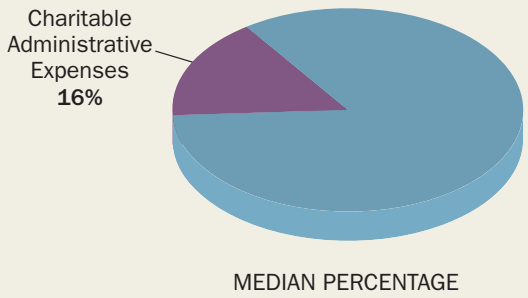
The shares were nearly identical for independent and family foundation respondents in 2008 (0.6 percent and 0.7 percent, respectively), suggesting that voluntary family labor is less likely to be contributed in the area of investment management, relative to other areas of foundation operations.

Community foundation program expenses represented a median 12.4 percent share of their overall qualifying distributions in 2008.

While not directly comparable to the charitable administrative expenses reported by private foundations, program services expenses (excluding grants) offer a reasonable proxy for comparison.

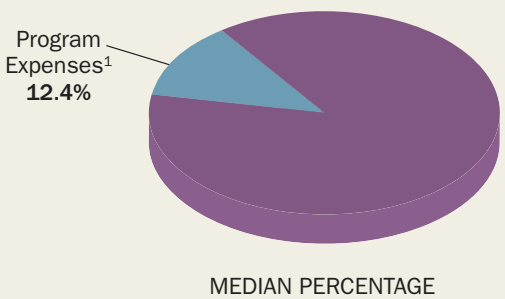
[1] "Charitable administrative expenses" include all expenses attributed to achieving the foundation's charitable mission; "qualifying distributions" include all expenses that qualify toward meeting the IRS payout requirement "investment operating and administrative expenses" include all expenses attributed to managing the foundation's endowment; and "net non-charitable use assets" represent the average monthly fair market value of a foundation's endowment assets.

Charitable Administrative Expenses as a Share of Qualifying Distributions for Staffed Foundations, 2008



Source: Council on Foundations, *Administrative and Investment Expenses*, 2010. Based on responses of 234 staffed independent and family foundations that reported charitable administrative expenses.

Program Expenses as a Share of Qualifying Distributions for Community Foundations, 2008



Source: Council on Foundations, *Administrative and Investment Expenses*, 2010. Based on responses of 196 staffed community foundations that reported charitable administrative expenses.
[1]Excludes grants.

Fiscal Oversight

Fiscal Oversight allows grantmakers to benchmark by foundation type and size their use of independent auditors, board fiscal oversight committee responsibilities, and the impact of audit results. The study also offers benchmarking resources for conflict of interest policies, the provision of directors and officers liability insurance, and board discretionary giving and matching gifts. The full report is available for purchase at www.cof.org/store.

Nearly all foundations used independent accounting firms in 2009.

Most independent and family, community, and public foundation respondents used these firms to review federal and/or state tax forms, conduct a financial audit, and/or review financial and internal procedures.

Close to three out of five foundations required the full board to approve the selection of an independent accounting firm.

By comparison, finance, audit, or other board committees could approve this selection among just over 37 percent of responding foundations in 2009. The remaining 4.7 percent of foundations allowed management to make this selection.

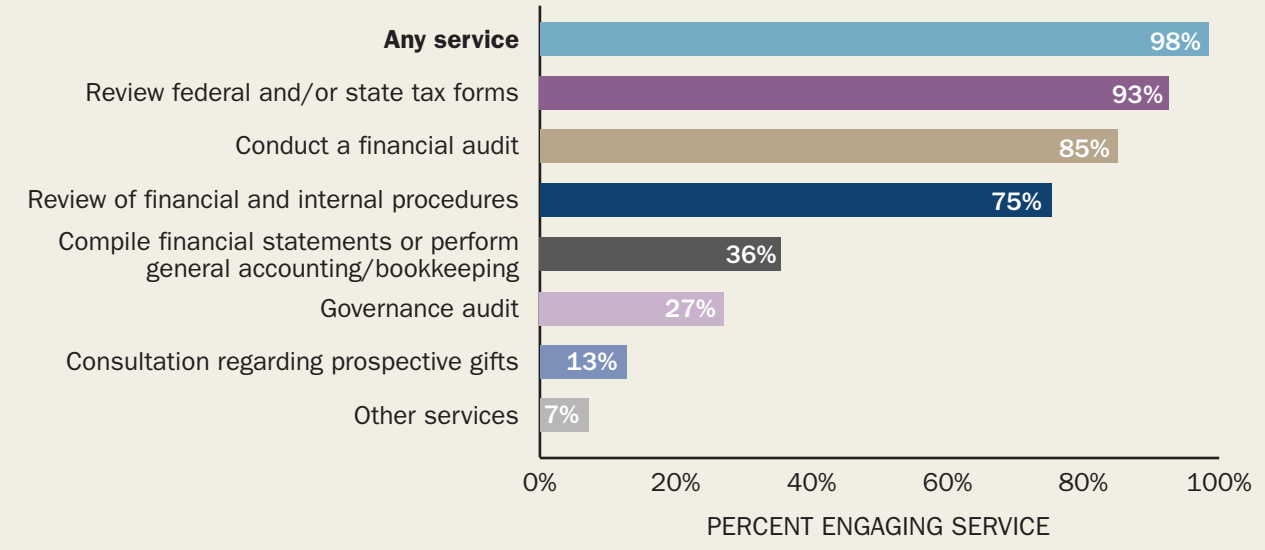
One-third of foundations strengthened their internal management controls in 2009 based on their 2008 audit.

Nonetheless, the vast majority of respondents indicated that no changes were made to foundation policies or practices based on their prior year's audit.

Nearly nine out of ten foundations provided directors and officers liability insurance.

The limits of liability coverage in 2009 ranged from $1,000 to $25 million, with a median of $3 million in coverage. The median annual premium was $3,894. Two-thirds of these policies have deductibles, with a median of $5,000 per claim and $2,500 per individual.

Foundation Use of Independent Accounting Firms by Service, 2009



Source: Council on Foundations, *Fiscal Oversight*, 2010. Based on responses of 506 foundations.

Most foundations had a written conflict of interest policy.

Less than 7 percent of respondents reported not having this type of written policy in place in 2009. Among foundations that had a written policy, the vast majority require that board members sign a conflict of interest disclosure statement (93.9 percent) and do so on an annual basis (88.4 percent).

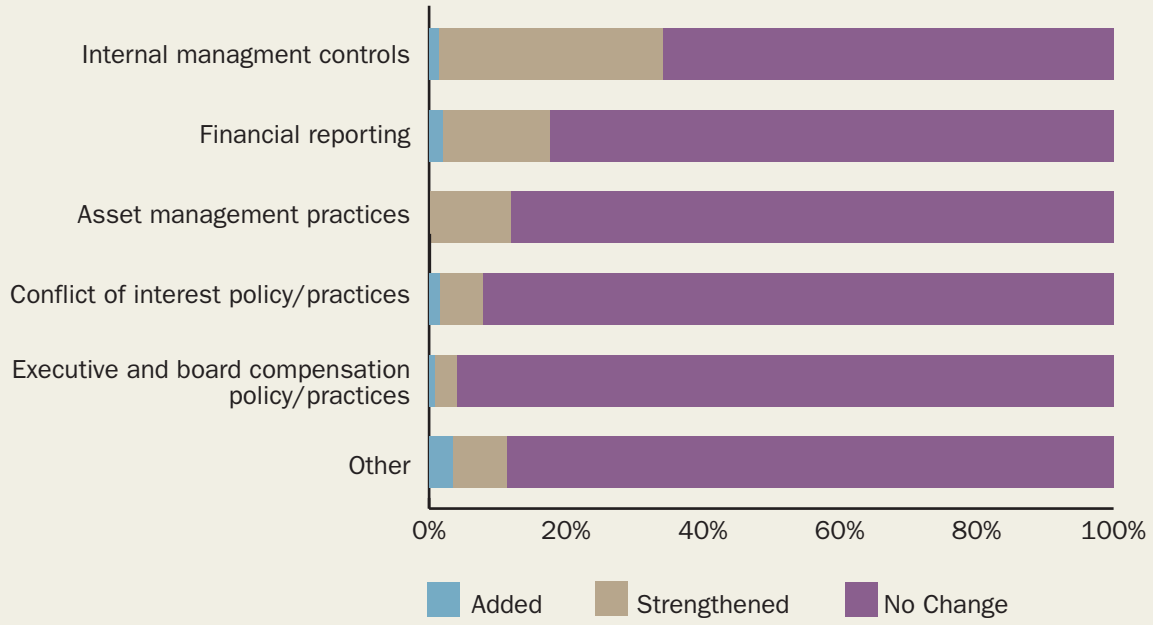
Roughly one in five foundations allowed board members to make discretionary grants.

Most of these grantmakers allow both board chairs and other members to make discretionary grants (72.3 percent). However, with rare exception, these foundations assigned a maximum amount that could be awarded. The median ceiling for discretionary giving by both board chairs and other board members was $20,000.

About one in seven foundations provided matching gifts on behalf of individual board members.

The largest share of these funders offered a 1:1 match for gifts (43.4 percent). Less than 30 percent of respondents reported assigning a maximum for these matches, but for those that did the median board matching gift cap was $10,000.

Changes in Foundation Policies or Practices Based on 2008 Audit, 2009



Source: Council on Foundations, *Fiscal Oversight*, 2010. Based on responses of 427 foundations.

Methodology

An invitation to participate in the foundation management survey was sent to 1,520 independent and family, community, and public foundations in March 2010. Recipients included Council on Foundations members, nonmembers, and additional grantmakers identified by the Foundation Center. Survey participants were asked to provide 2009 information on their boards' demographics, compensation and reimbursement practices, liability insurance, ethics policies, and discretionary grantmaking, along with information on their foundations' administrative expenses and fiscal oversight. Foundation type was determined based on self-identification by respondents.

A total of 518 foundations provided useable responses, for a response rate of 34.1 percent. Community foundations represented the largest share of respondents (42.5 percent), followed by independent (28 percent), family (20.8 percent), and public (8.7 percent) foundations. By foundation size, just over half of respondents (51.5 percent) held assets of less than $50 million in their 2009 fiscal year, while the set also included 22 foundations that reported $1 billion or more in assets.

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The Council on Foundations' *Foundation Management Series* provides foundation boards and staff with the tools needed to benchmark their operations against peers in the field. Through a biennial survey of leading U.S. independent and family, community, and public foundations, the Series documents foundation board composition and compensation, administrative expenses, and fiscal oversight. (See "Methodology" for details.)

Governance & Administrative Expenses: Key Findings offers a summary of key findings from the three reports included in the 2010 *Foundation Management Series—Board Composition & Compensation, Administrative & Investment Expenses,* and *Fiscal Oversight*—and other survey findings. Copies of these reports, which include detailed benchmarking information, are available for purchase at www.cof.org/store.

The *Foundation Management Series* is prepared in cooperation with the Foundation Center, which conducted the analysis presented in this report.