WORKING PAPER

Paying for Overhead: A Study of the Impact of Foundations' Overhead Payment Policies on Educational and Human Service Organizations

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ABSTRACT

This paper examines the impact of foundations' overhead funding policies on educational and human services organizations. Data was collected from two original surveys, one of foundations and one of educational and human services organizations, and from six case studies. The results of this study found that most foundations fund nonprofits' overhead expenses, mostly within program grants. Large foundations and those that fund locally were statistically more likely than smaller foundations or those that grant nationwide to fund nonprofits' overhead expenses, controlling for other factors.

The state of an educational or human services organizations' adequacy of overhead funding depends largely on the organization's total revenue, and especially its charitable revenue. Increases in revenue, in particular charitable revenue, had statistically positive effects on both educational and human service organizations' ability to acquire overhead funding. Only in human services organizations was the percentage of funding from foundations negatively correlated with the state of overhead funding. Both charitable and non-charitable revenue have statistically positive effects on the condition of an organization's infrastructure. The percentage of unrestricted funding, the percentage of funding from foundations, and the type of organization (human services or educational) was not statistically correlated with the condition of the organizations' infrastructure.

Case study results found that organizations with good or excellent infrastructure had diversified funding (i.e. they did not solely rely on foundation support) and had a high percentage of unrestricted funding, which could be used for overhead, yet they were still chronically understaffed. There is some evidence that these organizations purposefully pursued diversified funding strategies because of the volatility and typically temporary nature of foundation grants.

Overall the study indicates that foundations' overhead funding policies do not directly impact the operations of most human service and educational nonprofit organizations. However, human service organizations that did receive much of their budget from foundations were statistically more likely to report inadequate overhead funding. These conditions, as replicated in one of the case study organizations, were the results of the organization's decision to spend their unrestricted income on program needs rather than on their infrastructure, despite its desperate need because they knew that the foundation funding would end within three years.

INTRODUCTION

Results from the *Nonprofit Overhead Cost Study*[1] suggest nonprofits' organizational effectiveness may face serious consequences if the nonprofit does not spend adequate funds on overhead expenses. The study found that nonprofits, especially smaller ones, with restricted funding struggle with inadequate administrative and fundraising infrastructure. Inadequate infrastructure compromises organizational effectiveness (Hager et al, 2004). Common assumptions are that nonprofit do not spend additional money on overhead because foundation grant dollars restrict funding to only program costs or nonprofits who report higher administrative expenses do not receive future funding from foundations.

This study examines the role of the grantmaking foundations and their policies regarding nonprofits' spending on overhead expenses. In particular, the study focuses on two very different subsectors, education and human services, to determine if a differential treatment between these two types of organizations exists. The study also examines the two subsectors' abilities to pay for overhead expenses.

[1] The *Nonprofit Overhead Cost Study* was a five-year study that explored issues of nonprofit fundraising and administrative cost reporting.

LITERATURE REVIEW

Overhead funding of nonprofit organizations is an important topic widely discussed in the study of nonprofit management. The research suggests that overhead funding of nonprofit organizations is crucial for their organizational effectiveness and ability to maintain operations. Some research implies that foundations play a major role in providing such funding to nonprofit organizations, while some suggests the role is minor.

Wing, Pollak, and Rooney present a theory of nonprofits' fragile nature which states that weak factors in the nonprofit system include nonprofits' inability to acquire sufficient administrative funding to maintain effective and ongoing operations. Nonprofits face a distorted donor perception that high overhead costs are a sign of inefficiency (Wing et al, 2004).

Research from the *Nonprofit Overhead Cost Study* found that many nonprofits, including those with substantial organizational budgets, have limited administrative funds from which to operate. In particular, the case studies indicated serious consequences for nonprofits, which were then hard-pressed to fund overhead budgets from individual donations and other unrestricted sources. Significant misstatements and underreporting of administrative and fundraising costs by nonprofit organizations occurred. The study found a circular dynamic where low overhead funding and spending created reduced organizational effectiveness; reduced effectiveness sector-wide generated additional pressure to underreport or misreport overhead. As a result, social norms for unrealistically low overhead levels became acceptable, which has caused low funding and spending on overhead (Hager et al, 2004).

The study's case study organizations, both small and large, confronted significant organizational and budget challenges when largely funded by foundations, which paid either no or low overhead cost rates. The study found that some foundations rewarded organizations who reported low overhead costs even though, in some cases, it compromised fulfillment of their mission (Hager, et al, 2004).

These research findings echo what many nonprofit practitioners believe: foundations do not offer sufficient funding to sustain core operations. At a gathering of nonprofit practitioners, the National Committee for Responsive Philanthropy documented the concerns of those gathered. Many noted that foundations resist offering unrestricted grants because such grants do not allow for a direct measurement of impact. In addition, those gathered noted that foundations fear that those nonprofits receiving continued funding will become dependent on the foundation for their existence, or at least the existence of certain programs (NCRP, 2003).

Commentary by Paul Brest noted that the foundation grantmaking trend evokes a tension between grantor and grantee that is akin to the overhead cost issue—the strategy of providing general operating grants. Brest goes on to state that the nonprofit organization is compromised when foundations that support specific projects do not cover overhead costs (Brest, 2003).

In a study of nonprofit executives and the turnover in leadership, focus group participants noted their frustration with institutional funds and indicated how those funders make their job more difficult leading to an increase in stress and burnout. In a survey of executive directors, the

number one way funders could be helpful to them was to offer general operating/unrestricted grants and more multi-year support (Bell, et al, 2006).

A study of newly formed HIV/AIDS organizations found that those who relied on private support failed at a much higher rate (61 percent) than those that received public funds (18 percent). The major reason why these new or adolescent groups closed was their inability to raise adequate funds. Further when foundations did spur rapid growth through funding they did not cover start-up or overhead costs, but demanded strong fiscal systems frequently leading to organizational crisis (Chambre & Fitt, 2002).

A study conducted by the Center for Effective Philanthropy found that most foundation grants are restricted, small, and short-term program grants. The study found that while major foundations' chief executive officers view operating grants as positively impacting nonprofits, they have higher priorities for their foundations. In the Center for Effective Philanthropy's study of foundation grantees, they found that nonprofits prefer operating support and emphasized the need for larger and longer-term grants (Huang, Buchanan, and Buteau, 2006).

Some research suggests that foundations' overhead payment policies do not impact the nonprofit organization because nonprofits do not rely solely on foundations for revenue. In fact, foundation grants account for only 11.5 percent of nonprofit charitable contributions (*Giving USA, 2006*) and 2.9 percent of the nonprofit sectors' total revenue.[2]

Data is also available about foundation policies and practices on unrestricted and overhead cost funding. The Foundation Center reports that in 2004 general support was 21 percent of all grant dollars (25.3 percent of all grants). If you also include support for equipment, computer systems/technology, land acquisition, and debt reduction, general support was 23 percent of all grant dollars (27.7 percent of all grants).[3] From 2001 to 2004 general support increased by 6.8 percent, while the other types of support such as program grants decreased (The Foundation Center, 2006).

Researchers at the University of San Francisco found that larger California foundations are more likely to make general operating grants and multi-year grants. However, when a small foundation provides general operating grants, they tend to devote a greater percentage of their grants and a greater total amount to operating support. Few foundations believe that foundations should serve as the primary means for nonprofits to finance general operations. The University of San Francisco's researchers found that general operating grants allow foundations to partner with nonprofits to advance a long-term agenda, support a select number of organizations that are key to their strategic priorities, and help new organizations gain the necessary capacity to be more self sufficient (Silverman, Rafter, Fletcher, 2006).

[2] In 2004, Foundations gave over $31.8 billion in 2004. (Source: The Foundation Center: Foundation Yearbook, 2005). Public charities reported $1.1 trillion in total revenues in 2004 (Source: The Urban Institute, National Center for Charitable Statistics, Core Files 2004).

[3] Another 18.l percent of grant dollars were not specified.

Some of the research suggests that differences in overhead funding occur by organization type. The *Nonprofit Overhead Cost Study* found that measures of overhead and fundraising efficiency are greatly influenced by the organization's size, age, and subsector (Hager, et al, 2001).

The Foundation Center reports that 23.4 percent of all grant dollars are given to educational organizations (20.3 percent of all grants). While human services organizations received only 13.9 percent of all grant dollars, but 25.5 percent of all grants (The Foundation Center, 2006). The fields of health and education overwhelmingly received more large grants ($250,000 or higher) than other types of organizations such as arts and culture. Human services organizations received more small grants than other types of organizations, although educational organizations also received many small grants (The Foundation Center, 2006).

METHOD

This study will focus on whether foundations have a role in nonprofit organization's overhead funding, the effect (if any) on the condition of the organization's infrastructure and finances, and whether there are differences by type of nonprofit organization. This study is undertaken in three parts. Part one uses a survey of foundations' payment of and attitude toward nonprofits' administrative and fundraising costs. Part two examines results from a survey of educational and human services organizations' receipt and perceptions of overhead cost funding from foundations. Part three considers findings from a series of six case studies of educational and human services organizations across the U.S.

Part One: Foundation Survey

Results from the foundation study inform the degree to which foundations fund nonprofits' overhead costs. The study examines whether variation in foundations' size and type influenced the existence of policies on funding of administrative and fundraising costs or unrestricted grants, attitudes behind by those policies, and tracks whether there has been a recent shift in funding of nonprofits' overhead costs. The study also examines whether foundation type influences overhead funding.

Part Two: Nonprofit Survey

The survey of educational and human services organizations examines the relationship, if any, between measures of revenue and receiving foundation grants and the state of overhead funding, and the condition of the organization's infrastructure. The study considers whether this relationship differs by organization type (i.e. education versus human services or large versus small). Finally, the survey reports on reasons why nonprofits say their overhead funding is inadequate.

Part Three: Case Studies

Case studies of educational and human services organizations provide context to the foundation and nonprofit survey results. Each case study examines how the organization pays for their overhead expenses and in particular the role of foundations. The case studies also tell us the impact that having too little funding or adequate funding impacts operations and programming.

The study focuses on education and human services organizations only. These two subsectors where chosen because of their general differences in capital and infrastructure needs and

potential treatment of those needs by foundations. For instance, educational institutions tend to have more physical buildings and larger infrastructure needs. Foundations generally treat the two subsectors differently regarding specific policies about payment of educational indirect costs or percentage of unrestricted funding allocated.

DATA

The study uses three primary data sources. The first source comes from the foundation survey. The second source comes from the survey of educational and human services nonprofits. The third source comes from the financial records and reports from case study organizations, observational data collected during site visits of the case study organizations' facilities, and key informant interviews of chief executive officers and/or chief financial officers of the case study organizations.

Part One: Foundation Survey

In January of 2006, the Center on Philanthropy at Indiana University (Center) fielded a mail survey of 3,595 foundations as a supplemental part of The Foundation Center's annual Forecast Giving Survey. The survey yielded 710 responses, a 20 percent response rate. Table 1.1 presents sample statistics from the foundation survey.

Part Two: Nonprofit Survey

Between March and August of 2006, the Center fielded a mail survey of educational and human services organizations. The Center surveyed a stratified random sample of 6,000 educational and human services organizations; the stratification of the sample ensured inclusion of very small, small, medium, and large organizations (by asset size). In addition, half of the organizations selected were educational and half were human services groups. The sample was drawn from the National Center for Charitable Statistics database which contains all educational and human services organizations that filed an IRS Form 990.

There were two surveys, one general survey and one survey for supporting organizations (i.e. organizations whose primary purpose is to raise funds for another organization such as University Foundation). Each survey asked the same questions, but wording was slightly different to reflect differences in how supporting organizations operate. A total of 880 organizations responded to the survey equating to a 15.5 percent response rate. There are a total of 784 responses from general organizations and 96 responses from supporting organizations. Table 2.1 presents the sample statistics from the nonprofit study.

Part Three: Case Studies

Six case studies were conducted as a follow-up to the foundation and nonprofit survey. Organizations were selected for case studies using a stratified semi-random sample; the sample was stratified to ensure selection of very small, small, medium, and large organizations and to ensure geographically diverse organizations. In addition, only educational and human services organizations were selected for the study. Since this study focused on the role of foundation funding, each case study organization received some foundation support. The sample was drawn from the National Center for Charitable Statistics' database which contains all educational and human services organizations that filed an IRS Form 990.

Three sources of data were gathered for each case study. The first source came from key informant interviews of the chief executive officer and/or the chief financial officer at each organization. The second source of data came from observations of the organization's facilities. Team members from the Center made a site visit to each case study organization. During visits, researchers observed the overall condition of organizations' facilities, the existence and use of technology, and equipment or vehicles' condition.

Finally, organizational documents were reviewed. Those included (as available): IRS Forms 990 for the previous two years, audited or 'official' financial statements for the previous two years, fundraising budgets, samples of funded foundation proposals, internal and external budget to correspond to the foundation proposals, other fundraising materials, and a copy of any policies or procedures on overhead funding.

ANALYSIS

Multiple methods of analysis were employed for this paper. The methods used to analyze the foundation survey are first discussed, then the nonprofit survey, and finally methods used to determine results from the case studies.

Part One: Foundation Survey

Basic descriptive statistics from foundation survey data are found in Table 1.2. A simple correlation matrix was also conducted to determine statistically significant differences in levels of overhead funding by the various descriptive variables (Table 1.3.). The variables are:

FundAdmin1 =	Foundation that do not fund administrative or fundraising expenses of nonprofits
FundAdmin2 =	Foundations that fund some types of administrative or fundraising expenses of nonprofits
FundAdmin3 =	Foundations that fund all types of administrative or fundraising expenses of nonprofits
Method of Funding =	Various methods used by nonprofits to fund overhead expenses
Policies =	Measures of the existence of policies related to funding administrative or fundraising expenses of nonprofits
Fnd_Attitudes =	Measures of how the foundation thinks about funding overhead expenses of nonprofits
Granting Area =	Type of organizations the foundation supports (i.e., religious, arts, etc.)
Funding Area =	Geographic scope of foundation funding (i.e., locally, nationwide, internationally)
Age =	Years since the foundation was formed
Type Fnd =	Type of foundation (i.e., independent, community, or corporate)
Staff Size =	Number of full time staff members
Assets =	Asset range of the foundation
Giving =	Total amount granted in one year
Region =	Region of the country where the foundation is located

In studies where the dependent variable is dichotomous, an ordinary least squares model (OLS) or some variation of the model is not appropriate because the basic assumptions of OLS are

violated (Gujarati, 2003). For the foundation survey, we conducted an ordered Logit analysis that concentrated on the probability of foundations' funding or not funding administrative costs in nonprofits. In order to test the robustness of our results, we also tested variations of this basic model and conducted an ordered Probit analysis. Our goal was to identify major determinates of foundations' funding of nonprofit organizations' administrative. The Probit and Logit model coefficients and significance levels were nearly identical. Only the Logit model is presented here.

Equations for the three models are below:

$$\text{Log}(P_{\text{FundAdmin}(1)}/P_{\text{FundAdmin}(0)}) = a_{1/0} + b_{1/0}\,\text{Staff\_Size} + c_{1/0}\,\text{Foundation\_Age} + d_{1/0}\,\text{Total\_Giving} + e_{1/0}\,\text{Asset\_Size} + f_{1/0}\,\text{Foundation\_Type} + g_{1/0}\,\text{Scope\_of\_Funding} + h_{1/0}\,\text{Subsector} + i_{1/0}\,\text{Location}.$$

Where

P=	Probability
FundAdmin3=	1= foundation funds all types of administrative costs and 0 = foundations funds only some or no types of administrative costs.
FundAdmin4=	1=foundations funds some or all types of administrative costs and 0=foundations fund no administrative costs
FundAdmin5=	1=foundations fund no or some types of administrative costs and 0=foundations fund all administrative costs
Staff_Size=	Total number of full time staff employed by the foundation in 2005
Foundation_Age=	The length of time the foundation has been in existence
Total_Giving=	The total amount the foundation granted in 2005
Asset_Size=	Total assets of the foundation in 2005
Foundation_Type=	The type of foundation (i.e., independent, corporate, and community)
Scope_of_Funding=	The regions where the foundation funds (i.e., locally, nationwide, where the company is located, internationally)
Subsector=	The type of organizations the foundation funds (i.e., religion, arts, education, health, etc.)
Location=	The region of the country where the foundation is located

Part Two: Nonprofit Survey

Basic descriptive statistics from nonprofit survey data are found in Table 2.2. A correlation matrix was run to determine which variable were associated with the state of nonprofits' overhead and the condition of their infrastructure (Table 2.3).

The variables are:

State_of_Funding =	The state of the organizations overhead funding separated into three categorical variables: underfunded, just enough, and adequate funding.
Condition of Infrastructure =	The condition of the organization's infrastructure, separated into three categorical variables: poor, adequate, and good.

Revenue =	Organizational total revenue, separated into four categorical variables: very small ($500,000 or less), small ($500,001 - $2,000,000), medium ($2,000,001-$10,000,000), and large ($10,000,000 or more).
%SpentAdmin =	Percentage of total revenue that organizations can spend on administrative expenses, separated into three categorical variables: low (10% or less), medium (10 to 30%), and high (more than 30%).
CharitableRev =	Organizational charitable revenue, separated into four categorical variables: very small ($80,000 or less), small ($80,001 - $500,000), medium ($500,001 - $1,500,000), and large (more than $1,500,000).
%Rev.Fnds =	Percentage of charitable revenue organizations receive from foundations, separated into four categorical variables: none (0%), low (.0015-10%), medium (11-40%), and high (more than 40%).
Human Services =	Human services organization (0=No/1=Yes)
Education =	Educational organization (0=No/1=Yes)
Method of Payment =	Methods foundations use to grant overhead funding to nonprofit organizations.
Reasons =	If nonprofits reported that they had inadequate overhead funding, then they were asked to report on why they thought their overhead funding was inadequate.

The nonprofit survey's primary goal was to identify whether various measures of revenue and type of organization were correlated with the state of overhead funding for human services and/or educational organizations and the condition of the human services and/or educational organizations' infrastructure.

The simple correlation coefficients revealed potential problems with multi-collinearity between independent variables. Because the goal was only to identify factors that correlated with the state of overhead funding and the condition of the infrastructure and not to generate a predictive model of the determinates of the state of overhead funding and the condition of infrastructure in educational and human services organizations, separate regressions for each independent variable were run. An ordinary least squares model was run with the state of overhead funding and the condition of infrastructure as the ordinal dependent variables.

The general equation for the regressions was:

$State\_of\_Funding_t = C + \beta_1 Revenue_t + \beta_2 Education_t + \varepsilon.$
$Condition\_of\_Infrastructure_t = C + \beta_1 Revenue_t + \beta_2 Education_t + \varepsilon.$

Where

State_of_Funding =	The adequacy of overhead funding of human services or educational organizations as an ordinal variable from unable to pay for overhead expenses to enough funding to invest in new systems or remodel.
Condition_of_Infrastructure=	The condition of the human services or educational organization's infrastructure as on ordinal variable from very poor to excellent.

Independent variables tested were

LogRevenue =	The log of the organizations' total revenue as a continuous variable.
%SpentAdmin =	Percentage of total revenue that organizations can spend on administrative expenses as a continuous variable.
LogCharitableRev =	The log of the organizations' charitable revenue as a continuous variable.
LogNonCharitableRev =	The log of the organizations' charitable revenue as a continuous variable.
%Rev.Fnds =	Percentage of charitable revenue organizations receive from foundations as a continuous variable.
Education =	Type of organization, 1=educational organization, 0=human services organization.

Part Three: Case Studies

In analyzing results from case studies, detailed notes from key informant interviews were examined; from them, key themes as well as repeated words and concepts were identified. Each interviewee was asked the same set of questions, making comparisons of their answers straightforward. Organizational information—including financial documents, foundation proposals, and observational data taken from site visits—rounded out the qualitative review.

RESULTS

Results from the survey are divided into three sections which build off each other. First we explore results from our study of foundations, then results from the nonprofit survey, and finally results from the case studies.

Part One: Foundation Survey

Results from the foundation survey indicate that 18.5 percent of foundations do not fund any type of nonprofits' administrative or fundraising costs (Table 1.1). Just over 12.5 percent fund only some types of overhead costs while 69.0 percent fund all types of overhead costs. Foundations are much more likely to fund nonprofits' administrative expenses when they are part of a program budget. As shown in Table 1.4, nearly half report making general operating grants, and 31.2 percent report awarding unrestricted grants. In addition, 27 percent of foundations report funding administrative expenses when included as general expenses of a project. However, when asked about specific types of overhead expenses, between 17 and 65 percent of foundations reported they would pay for a particular type of administrative or fundraising expense if it were included as part of a program budget (see Figure 1.1). On the other hand, if an organizations sought support for a specific types of administrative or fundraising expense from a foundation as its own proposal (e.g., not as part of a program or project's budget), then only 7 to 28 percent of foundations would consider making the grant, depending on the type of expense (see Figure 1.2).

As shown in Table 1.5, when foundations permitted grantees to request overhead funding as a percentage of a direct costs, the mean and median amount allowed to be requested was 15 percent. When foundations permitted the request of overhead funding as a set dollar amount, the

mean amount allowed to be requested is $23,750 and the median amount is $20,000 (mode = $5,000).

The second premise of the study is that foundations have policies about paying the overhead expenses of nonprofit organizations. Results from the study indicate that very few foundations, only 17.8 percent, have written policies regarding funding administrative costs (Table 1.6). Only 34.6 percent report written policies of making operating grants. When those policies are in place, 59.5 percent conduct a periodic review of these policies, but only 6.9 percent have conducted any type of analysis regarding the impact of those policies on organizational operations or programs. Further only 5 percent have ever changed these policies.

Regression Results: Foundation Study

Results from all three regression models are presented in Table 1.7. Results show that foundations that give more than $300,000 per year are positively correlated with funding all or at least some types of administrative or fundraising costs as opposed to organizations that give less than $300,000 a year holding all else constant. Large foundations, those giving more than $6.5 million a year, are statistically more likely to fund all types of administrative and fundraising costs as opposed to just some types of overhead costs. Foundations between 10 and 55 years of age are statistically significantly less likely to fund all types of administrative and fundraising costs compared with foundations less than 10 years old. Community foundations are statistically significantly less likely than independent foundations to fund all or at least some types of administrative or fundraising costs. In addition, foundations that fund nationwide, including corporate foundations that fund areas where the company is located, are statistically significantly less likely than those funding only in local areas to fund all types or at least some types of administrative or fundraising costs. Foundations funding human service organizations, as opposed to public-society benefit organizations, are also statistically significantly more likely to fund all types of administrative and fundraising costs. Finally Foundations located in the West, as opposed to the North, are statistically significantly more likely to fund all types of administrative or fundraising costs.

Part Two: Nonprofit Survey

Results from the nonprofit survey indicate that the current state of overhead funding differs by organization size, specifically by overall revenue and charitable revenue. The more revenue earned or raised by an organization, the more likely they were to report adequate funding or having enough funds that they could invest in new systems or remodel (Figure 2.1). Of those organizations reporting adequate overhead funding, most, 34.9 percent, received more than $1.5 million in charitable revenue a year. Those organizations reporting adequate overhead funding were more likely to report no foundation funding or receive a low percentage of their charitable revenue from foundations. As shown in Table 2.4, most organizations where overhead funding is reported as inadequate (i.e., underfunded) are likely to be very small, 36.7 percent.

In addition, the type of organization seemed to affect the reported overall state of the organization's overhead funding (see Figure 2.2). Educational organizations were more likely to report adequate funding for overhead expenses, 32.6 percent. Human services organizations were the most likely to report underfunding, 36.7 percent.

Educational and human services organizations that reported they were unable to pay for their overhead, that their overhead was underfunded, or that they had just enough funds to pay for overhead are characterized as having inadequate overhead funding for this study. Two-thirds, or 66.4 percent, of all educational and human services organizations reported inadequate overhead funds.

As illustrative in Figure 2.3, over half, 53.4 percent, reported the cause of their inadequate overhead funding was foundations desiring to support programs and not administrative expenses. Only 19 percent reported that government grants were the reason for their inadequate overhead funding, and 11.2 percent blamed corporations. Rather, 27.7 percent report that the reason their overhead funding is low is due to external pressure to keep those expenses low. Nearly 20 percent reported that inadequate overhead funding was due to their having other fundraising priorities.

The reported condition of nonprofits' overhead expenses is correlated with their reported ability to fund overhead costs (see Table 2.3). Overhead was in a good or very good condition for over 90 percent of educational and human services organizations that reported at least adequate funding (see Figure 2.4). Of those that reporting underfunding of overhead or those that could not pay for their overhead, one-third reported their overhead was in poor condition, one-third said it was adequate, and one-third reported it was in good condition. As shown in Table 2.4, organizations reporting poor condition of infrastructure were most likely to be small (55.1 percent reported revenue of $500,000 or less and 35.6 percent reported charitable revenue of $80,000 or less).

Infrastructure is a very broad category that describes various types of overhead expenses, therefore, the condition of various types of costs was also examined. Of those organizations that reported inadequate overhead funding, auditing of financial accounts was reported as good or very good by 73.9 percent of all educational and human services organizations, more than any other type of overhead cost. The qualifications of accounting personnel were also reported as good by 68.2 percent. Fundraising computer software and benefits for employees were the most likely type of infrastructure to be in poor condition (Figure 2.5).

Regression Results: Nonprofit Survey

Results from regression models are located in Table 2.5. Total revenue and charitable revenue both have statistically positive effects on the state of overhead funding. As revenue or charitable revenue increases human services or educational organizations are statistically more likely to report more funding available for overhead expenses. When revenue is subdivided into charitable and non-charitable revenue, only charitable revenue is statistically positively correlated with the state of overhead funding.

In human services organizations total revenue and charitable revenue has statistically positive effects on the state of overhead funding. When revenue is divided by charitable revenue and non-charitable revenue, only charitable revenue remains positively statistically correlated with the state of overhead funding. In human services organizations the percent of funding from foundations is also negatively correlated with state of overhead funding.

In educational organizations total revenue is the only tested variable statistically correlated with the state of overhead funding. However, when revenue is divided by charitable and non-charitable revenue, neither is statistically correlated with the state of overhead funding. This indicates that revenue, either charitable or non-charitable revenue, has less of an overhead impact on the state of overhead funding of an educational organization, than it does on a human services organization. In models with both educational and human services organizations, educational organizations were positively correlated with the state of overhead funding, controlling for charitable and non-charitable revenue. The percent of unrestricted funding was not correlated with state of overhead funding in any model and the percent of funding from foundations was only significant in models of only human services organizations and then negatively correlated.

Both size of charitable revenue and the size of non-charitable revenue have statistically significant positive effects on the condition of an organization's infrastructure. For human services organizations both charitable and non-charitable revenue are positively correlated with the condition of infrastructure. In educational organizations total revenue and charitable revenue are positively correlated with the condition of infrastructure. When revenue is divided by charitable and non-charitable revenue only charitable revenue is positively correlated with the condition of infrastructure. The percentage of unrestricted funding and the percentage of funding an organization receives from foundations are not statistically correlated with the condition of their infrastructure. The type of organization (educational or human services) was also not statistically correlated with the condition of infrastructure.

Part Three: Case Studies

With one exception, the case study organizations do not rely on foundations to cover core operations and therefore overhead policies do not impact the constituencies they serve in direct ways. The one exception was a very small educational organization we call Youth Link. [4] Nearly two-thirds of Youth Link's budget is supported by a single general operating grant. This level of core support is fairly recent for them. Previously they maintained their core operations from income earned from bingo. This unrestricted foundation grant is coming to an end, most likely because the foundation does not want the organization to be solely dependent on them. Youth Link plans to seek government support following the conclusion of the unrestricted grant. The impact of foundations' overhead policies on this organization was to increase the services they could provide in the short run, but as they foresee the end of this short-term funding they must seek long-term support to maintain this level of service. This organization provides an interesting case study, because, while much of their funding is unrestricted, they spend very little on administrative or fundraising expense – despite the poor condition of some of their infrastructure (i.e. roof, window, and low salaries). In fact, when posed with a hypothetical situation of receiving 10 percent more income, the executive director said the organization would spend it on transportation to increase their services. The executive director's expectation is that by serving more youth they will be able to increase funding, which will allow them to spend more on overhead, for example, increasing their salaries by three percent.

The short-term nature of foundation grants was a concern echoed by many executive directors. The executive director of Food Inc., a large human services organization located in the West

[4] Note: Each case study organization has been renamed to ensure the anonymity of the organization and the confidentiality of the person interviewed.

said, “Foundations want to fund new and innovative programs, not successful ones.” Foundations play a minor role in this organization; they provide a total of $192,500, 5.8 percent of total revenue. Most of their grants are very small, $5,000 to $10,000 each. The grants typically fund only a portion of their program costs. Therefore, the loss of funding from any one foundation is unlikely to have a material effort on the overall funding and health of the organization. Food Inc. has sought to build up individual donors more than foundations, because they are concerned about the temporary nature of foundation funding.

Foundations also play a minor role for Supporting Southern Women; foundation grants constitute less than 10 percent of their income. Should they temporarily loose foundation support, the executive director said that for the short-term they would simply begin utilizing the interest income off their endowment, which remains untouched at this time.

Promoting Women, a very small human services organization and Supporting Southern Women, a small human services, both have very diversified funding sources: between 57 to 66 percent of their revenue is unrestricted. If in-kind donations which support their program were not considered, then approximately 90 percent of their revenue is unrestricted. Promoting Women’s infrastructure is in good to excellent condition. But like many organizations, they are understaffed. Promoting Women is executive director commented that they are probably always understaffed because they do not want to hire someone if they are unsure the organization has funding to maintain the position in the long-run.

A foundation in Promoting Women’s local area has provided them with a three-year capacity-building grant. This grant allowed Promoting Women, who have had a consistently dramatic growth rate, to begin a capital campaign. The capacity-building grant paid for consultants, fundraising software, and a full financial review, among other items. Now Promoting Women, which has run out of space in their current facility, is raising $500,000 for more space and more staff to reach more women. While this organization was on a growth trajectory before the grant, the capacity-building grant accelerated this process. It is important to note that Promoting Women has specifically sought out a diversified funding stream of corporate, individual, and special event income because they feel foundations do not provide enough operating support even for the programs they might support.

The Youth Center is a large human service organization in the Northwest. They receive a few foundation grants every year, but foundation funding is only 6.8 percent of their total revenue. Other revenue comes from program fees, rental income, and income from two endowments that total $5 million. For each grant the organization receives the grant usually includes some funding, 15 percent, for administrative costs, if the grant is not unrestricted. However, because of their diversified funding streams, if any one foundation only pays for program costs and not for administration, they are able to shift funds and pay for administration and fundraising from other revenue streams (i.e., fees, interest income, and endowment payouts). The Youth Center is a model for operating a successful human services organization, with 85 people on staff they serve over 7,000 children each year in over 125 communities. Their facilities are in excellent condition having just completed a renovation on 14,000 square feet of their facility. This organization, however, is still understaffed as evidenced by one staff member whose roles

include information technology specialist, development assistant, and assistant to the chief operating officer.

The final case study is The University Foundation, a large organization located in the Midwest with approximate 120 staff members and a $20 million annual budget. Its primary purpose is to support the university in securing private support. Since the primary function of the organization is fundraising, this expense is considered a program costs rather than overhead. Similar to other university foundations, the case study organization has a variety of means to fund operations. This includes a negotiated payment from the University which covers 46 percent of their operations, a 1.1 percent management fee on endowed funds, and private contributions to pay for major renovations. When the University Foundation receives donations from grantmaking foundations, none of those funds are used to pay for operations of The University Foundation. They self-restrict those funds for programs within the University and do not 'tax' any gifts. As with many university foundations, our case study organization does not explicitly raise funds for their operations.[5] The reason is because it provides clear understanding, particularly for donors, that the Foundation raises money for the University and not for itself. Grantmaking foundations overhead payment policies do not have a direct impact on The University Foundation's ability to fulfill its mission because The University Foundation pays for its operations in other manners as outlined above.

Foundations' overhead funding policies do not directly impact the constituents of these case study organizations because none of them rely on foundation funding to support the majority of their overhead expenses. In the one instance when the organization Youth Link did rely heavily on foundation funding, it has only been a recent occurrence in the organization's history. Even now the organization is transitioning off foundation funding.

At first these case studies seem to absolve foundations from impacting organizations' overhead funding because most of the case study organizations do not rely on foundation funding for overhead support, but the impact is less obvious. Many of the executive directors that were interviewed reported feelings of frustration. There were not frustrated by the low percentage of funding covering administration costs or the low percentage of overhead in a program grant, but rather they were frustrated by the temporary, short-term nature of foundation funding.

Our perception is that the main reason why some of the case study organizations were "successful"[6] was because they had diversified funding streams. Food Inc., for example, relies on the steady stream of earned revenue and individual donations for their core operating support, leaving foundation grants to cover only a portion of their program expenses. This is perhaps why organizations growing in revenue and growing in the number of people served, generally seek a more diversified funding source and leave foundations as a minor funder relative to their overall revenue.

[5] With one exception, they have raised funds from The University Foundation's board members, but are self-restricted to having no more than $40 million in reserves (two times their annual operating budget).

[6] Note: Success was subjectively determined. Factors include organizations who served a large number of constituents relative to their size and location, those who have enough funding to sustain core operations, at least in the short-run, and those whose infrastructure was in good condition.

SUMMARY OF OVERALL RESULTS

Similar to other research on foundations' giving patterns, the results of this study indicate that foundations do fund nonprofits' overhead expenses, but they do so mostly through the inclusion of overhead expenses within program grants. Larger foundations and those that fund locally are more likely to fund nonprofits' overhead.

Whether or not an educational or human services organization has adequate funding to pay for overhead expenses depends largely on their revenue. Larger nonprofit organizations were statistically more likely to have adequate or more than adequate overhead funding. However, when human services organizations did rely on foundation funding for a large proportion of their budget, they were statistically less likely to report adequate overhead funding.

The condition of the educational or human services organization's infrastructure is statistically correlated with both charitable and non-charitable revenue. Larger organizations are statistically correlated with better infrastructure. From the Center's case studies, organizations with good or excellent infrastructure had diversified funding (i.e., they did not rely on just foundation support) and a high percentage of unrestricted overhead. Yet these organizations were still chronically understaffed. Youth Link, an organization with significant unrestricted foundation support did not spend funding on their infrastructure – despite a desperate need to do so, and would not spend more on overhead even if they received more funding. Their unrestricted support is short–term, and the executive director's intuition was that if they were able to serve more youth then eventually they would able to increase their funding and spend more on overhead.

FURTHER DISCUSSION

The first "deadly sin of philanthropy" according to Joel Orosz is to do no harm (Orosz, 2000). The danger comes from unwittingly doing damage since foundations do not begin with the intention of causing harm. One of the tensions in the overhead funding debate is whether harm is caused by enabling dependency by offering long term and/or general operating support or by risking inefficiency or reduced effectiveness by providing too little overhead funding for too short a time.

The study shows that foundations seem willing to fund overhead costs within a proposal. Nearly half of all foundations studied reported that administrative funding builds nonprofits' capacity and helps to meet the needs of constituents. This study, however, speaks to the larger role of foundations in the nonprofit sector. Specifically, which funding source should sustain nonprofits core operations in the long run? Many foundations understand their individual roles as bringing innovation to society, which usually means funding new programs for short durations. Further, seemingly more foundations are choosing to fund strategic philanthropy which has been translated to mean grants focused on specific issues and funding organizations for short periods of time. However, the nonprofit sector is full of organizations and programs that are neither new nor innovative in a year to year sense or in the sense that these nonprofits are still working towards solving the same social problems sometimes in relatively the same manner (e.g., shelter and feeding the poor). Nevertheless, those organizations provide a critical layer of support and service for society. This leaves us with a critical question for foundations and all interested parties in the nonprofit sector; whose role is it to sustain the core operations of organizations that provide basic charity in the long-term?

According to resource dependence theory as outlined by Pfeffer and Salancik, organizational survivability depends on its ability to acquire and maintain resources. Since resources are inherently scarce and unassured, organizations adapt to the requirements of large funders (Pfeffer & Salancik, 1978). Foundation funding, as a subset of private contributions, is a particularly volatile revenue stream because of the episodic nature of grants particularly when foundations purposefully limit funding to reduce organizational dependence on foundation funding. When organizations rely on private contributions they are more prone to goal displacement and the organization's income stream is more volatile than those organizations that choose different funding strategies, for example to utilize commercial activity (Froelich, 1999).

Our study found that most organizations do not rely on foundation funding to pay for their core operations. In our case studies, we found that organizations that pursue non–foundation funding streams (i.e., individual donations, earned income, and fees) tended to be larger in size, have more overhead funding, and better infrastructure. Our regression analysis, however, indicated that only human service organizations that rely heavily on foundation funding were statistically more likely to report inadequate overhead funding. We also found that dependence on foundation funding did not impact the condition of an organization's infrastructure.

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Table 1.1. Sample and Descriptive Statistics, Foundation Survey

	% of All Foundations (in sample)	Percentage of Foundations Reporting Funding None, Some, or All Types of Administrative & Fundraising Costs		
		No Costs	Some Costs	All Costs
OVERALL^	**N=710**	**18.5**	**12.5**	**69.0**
Age: 9 or less	11.4	13.0	5.8	81.2
Age: 10-20	24.7	17.7	13.6	68.7
Age: 20-40	24.7	20.3	13.5	66.2
Age: 40-55	20.2	17.4	14.9	67.8
Age: 55+	18.9	13.2	14.0	72.8
Staff: 1	20.3	20.4	14.0	65.6
Staff: 2 or 3	35.4	13.5	17.2	69.3
Staff: 4 or 7	22.2	20.4	7.8	71.8
Staff: 8 or more	22.0	10.8	14.7	74.5
Asset: 4.5M_or Less	19.7	22.9	10.2	66.9
Asset: 4.5M-20M	27.4	19.2	17.4	63.5
Asset: 20M-40M	14.1	21.2	8.2	70.6
Asset: 40M-100M	18.2	11.8	10.9	77.3
Asset: 100M or More	20.7	11.9	14.3	73.8
Giving: < 300K	18.0	30.6	13.9	55.6
Giving: 300K_900K	21.3	17.7	13.8	68.5
Giving: 900K_2M	16.4	16.2	14.1	69.7
Giving: 2M_6.5M	24.1	11.6	11.6	75.3
Giving: > 6.5M	20.2	13.0	9.8	77.2
Region: North	24.5	13.4	14.0	72.7
Region: East	34.2	21.6	15.4	63.1
Region: South	87.9	17.9	12.5	69.6
Region: West	19.3	14.6	7.3	78.1
Type of Fnd.: Independent	73.1	16.3	11.8	71.9
Type of Fnd.: Corporate	7.9	16.7	12.5	70.8
Type of Fnd.: Community	19.0	21.7	16.5	61.7
Granting Area: Education	76.3	18.6	12.5	68.9
Granting Area: Human Services	75.7	14.6	11.6	73.7
Granting Area: International	4.2	10.0	13.3	76.7
Granting Area: Public Society Benefit	49.4	16.7	14.1	69.2
Granting Area: Religion	13.2	21.3	11.7	67.0
Granting Area: Other	33.7	13.7	8.5	77.8
Granting Area: Health	56.8	16.3	12.3	71.5
Granting Area: Environmental	32.0	15.7	13.5	70.9
Granting Area: Arts	58.0	16.0	12.3	71.7
Geography of Funding: Local	84.6	15.0	12.6	71.7
Geography of Funding: National	10.9	31.8	12.1	56.1
Geography of Funding: International	6.0	21.2	9.1	69.7

^Some foundations did not report.

Table 1.2. Descriptive Statistics, Foundation Survey

	Mean	SD	N
Variables (0=No/1=Yes)			
Executive Director (own)	0.110	0.313	710
Executive Director (program costs)	0.601	0.490	710
Employee salaries & benefits (own)	0.127	0.333	710
Employee salaries & benefits (program costs)	0.676	0.468	710
Contractors (own)	0.110	0.313	710
Contractors (program costs)	0.565	0.496	710
Rent (own)	0.080	0.272	710
Rent (program costs)	0.566	0.496	710
Utilities (own)	0.073	0.261	710
Utilities (program costs)	0.559	0.497	710
Office supplies (own)	0.100	0.300	710
Office supplies (program costs)	0.637	0.481	710
Office equipment (own)	0.189	0.392	710
Office equipment (program costs)	0.634	0.482	710
Technology (own)	0.251	0.434	710
Technology (program costs)	0.652	0.477	710
Staff training (own)	0.278	0.448	709
Staff training (program costs)	0.575	0.495	709
Board development (own)	0.243	0.429	709
Board development (program costs)	0.399	0.490	709
Strategic planning (own)	0.283	0.451	709
Strategic planning (program costs)	0.439	0.497	709
Legal fees (own)	0.075	0.263	709
Legal fees (program costs)	0.368	0.483	709
Accounting fees (own)	0.079	0.270	709
Accounting fees (program costs)	0.409	0.492	709
Marketing (own)	0.113	0.317	709
Marketing (program costs)	0.492	0.500	709
Fundraising (own)	0.114	0.318	709
Fundraising (program costs)	0.417	0.493	709
Mergers (own)	0.197	0.398	709
Mergers (program costs)	0.300	0.459	709
Budget deficits (own)	0.106	0.308	709
Budget deficits (program costs)	0.173	0.379	709
Method of Funding Overhead (0=No/1=Yes)			
As a % of direct costs	0.068	0.252	708
As a set dollar cap	0.006	0.075	708
As a proportion of expenses	0.270	0.444	708
Another method	0.031	0.174	708
As general operating grants	0.492	0.500	708
As unrestricted grants	0.312	0.464	708

	Mean	SD	N
Policy (1=Yes/2=No)			
On funding admin. costs	1.805	3.714	707
On general operating grants	1.516	0.646	707
Periodically reviews this policy	0.951	0.773	695
Conducted an impact analysis of admin. policies	1.801	3.729	707
Other policies	0.355	0.479	707
Change in admin. policy	0.478	0.500	707
Foundation Attitude on Overhead (0=No/1=Yes)			
Tradition of supporting admin.	0.337	0.473	707
Builds grantee's org. capacity	0.324	0.468	707
Fnd. provides long-term support	0.050	0.217	707
Fnd. funds new innovative programs	0.146	0.353	707
Admin. does not bring visibility	0.274	0.447	707
Overhead does not provide enough specific objectives	0.020	0.139	707
Nonprofit should seek other means for admin. support	0.109	0.312	707
Nonprofits admin. costs are higher than they should be	0.243	0.429	707
Fnd. only funds programs	0.065	0.247	707
Nonprofits should include admin. in program costs	1.743	0.633	707
Granting Area (0=No/1=Yes)			
Education	0.763	0.425	710
Human Services	0.758	0.429	710
International	0.042	0.201	710
PSB	0.494	0.500	710
Religion	0.132	0.339	710
Other	0.337	0.473	710
Health	0.568	0.496	710
Environmental	0.320	0.467	710
Arts	0.580	0.494	710
Funding Area (0=No/1=Yes)			
Locally	0.706	0.456	710
Nationally	0.093	0.291	710
Internationally	0.046	0.211	710

Table 1.2. continued

	Mean	SD	N
Descriptive Variables (Yes/No)			
Age 10-20	0.210	0.407	710
Age 20-40	0.210	0.407	710
Age 40-55	0.172	0.377	710
Age 55+	0.161	0.367	710
Independent	0.708	0.455	710
Corporate	0.068	0.251	710
Community	0.163	0.370	710
Staff 1	0.132	0.339	710
Staff 2 or 3	0.231	0.422	710
Staff 4 or 7	0.145	0.352	710
Staff 8 or more	0.144	0.351	710
Asset 4.5M_orLess	0.169	0.375	710
Asset 4.5M-20M	0.235	0.424	710
Asset 20M-40M	0.121	0.327	710
Asset 40M-100M	0.156	0.363	710
Asset 100MorMore	0.177	0.382	710
Giving < 300K	0.155	0.362	710
Giving 300K_900K	0.183	0.387	710
Giving 900K_2M	0.141	0.348	710
Giving 2M_6.5M	0.207	0.405	710
Giving > 6.5M	0.173	0.379	710
Region North	0.245	0.430	710
Region East	0.342	0.475	710
Region South	0.079	0.270	710
Region West	0.193	0.395	710
FndAdmin1	0.183	0.387	710
FndAdmin2	0.124	0.330	710
FndAdmin3	0.685	0.465	710

Table 1.3: Correlation Matrix, Foundation Study

	Foundation Funds No Overhead	Foundation Some Types Overhead	Foundation All Types of overhead
Method of Funding Overhead			
As a % of direct costs	-0.069	0.018	0.049
As a set dollar cap	-0.035	0.029	0.010
As a proportion of expenses	-0.203***	0.022	0.164***
Another method	-0.021	0.056	-0.019
As general operating grants	-0.462***	-0.370***	0.665***
As unrestricted grants	-0.316***	-0.254***	0.455***
Policy			
On funding admin. costs	-0.086*	-0.018	0.090*
On general operating grants	-0.363***	-0.056	0.360***
Periodic review of policy	-0.033	0.001	0.029
Conducted an impact analysis of admin. policies	-0.070	0.002	0.061
Other policies	-0.019	0.040	-0.020
Change in admin. policy	-0.194***	-0.036	0.217***
Foundation Attitude on Overhead			
Trad. of funding admin.	-0.347***	-0.280***	0.500***
Builds grantee's org. capacity	-0.426***	-0.198***	0.511***
Fnd. provides long-term support	-0.240***	-0.142***	0.312***
Fnd. funds new innovative programs	-0.017	0.142***	-0.101**
Admin. does not bring visibility	0.131***	0.092*	-0.170***
Overhead does not provide enough specific objectives	0.172***	0.160***	-0.266***
Nonprofit should seek other means for for admin. support	0.018	0.143***	-0.112**
Nonprofits admin. costs are higher than they should be	0.039	-0.054	0.008
Fnd. only funds programs	0.534***	-0.132***	-0.342***
Nonprofits should include admin. in program costs	-0.171***	-0.024	0.169***

***Correlation is significant at the 0.001 level (2-tailed).
**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

	Foundation Funds No Overhead	Foundation Some Types Overhead	Foundation All Types of overhead
Granting Area			
Education	0.007	-0.002	-0.007
Human Services	-0.174***	-0.047	0.175***
International	-0.045	0.006	0.037
PSB	-0.046	0.047	-0.002
Religion	0.030	-0.008	-0.012
Other	-0.090*	-0.087*	0.118**
Health	-0.065	-0.008	0.062
Environmental	-0.051	0.017	0.017
Arts	-0.077*	-0.009	0.055
Funding Area			
Locally	-0.134***	0.008	0.107**
Nationally	0.112**	-0.003	-0.085*
Internationally	0.017	-0.022	0.006
Age 10-20	-0.011	0.016	-0.007
Age 20-40	0.024	0.016	-0.030
Age 40-55	-0.013	0.033	-0.012
Age 55+	-0.058	0.022	0.041
Independent	-0.089*	-0.031	0.091*
Corporate	-0.011	0.001	0.014
Community	0.037	0.053	-0.069
Staff 1	0.019	0.017	-0.030
Staff 2 or 3	-0.069	0.078*	0.005
Staff 4 or 7	0.022	-0.058	0.030
Staff 8 or more	-0.080*	0.029	0.053
Asset 4.5M_orLess	0.049	-0.033	-0.025
Asset 4.5M-20M	0.012	0.084*	-0.059
Asset 20M-40M	0.025	-0.048	0.011
Asset 40M-100M	-0.073*	-0.021	0.075*
Asset 100MorMore	-0.077*	0.027	0.054
Giving < 300K	0.129***	0.016	-0.128***
Giving 300K_900K	-0.008	0.021	0.000
Giving 900K_2M	-0.024	0.020	0.005
Giving 2M_6.5M	-0.089*	0.008	0.070
Giving > 6.5M	-0.063	-0.037	0.087*
Region North	-0.075*	0.024	0.042
Region East	0.058	0.062	-0.092*
Region South	-0.003	0.001	0.008
Region West	-0.047	-0.076*	0.102**

Table 1.4. Method of calculating overhead costs foundation's permit grantees to request

	% reporting
As a percentage of direct costs	9.4%
As a set dollar amount	0.7%
As a proportion of general expenses of a project	27.0%
Other means	3.1%
Fund general operating grants	49.2%
Funds unrestricted grants	31.2%

Table 1.5. Descriptive statistics of methods of calculating overhead costs that foundations permit grantees to request

	As a % of direct costs	As a set $ amount
Mean	15%	$23,750
Median	15%	$20,000
Mode	10%	$5,000

Table 1.6. Percentage of foundations with grant making policies
Of those who answered (n=~650)

	Percent (yes)*
Policy on funding administrative costs	17.8
Policy on operating grants	34.6
Periodic review of policies	59.5
Impact analysis	6.9

*Does not total 100%, select all that apply

Figure 1.1. Percentage of foundations funding overhead expenses if part of a program

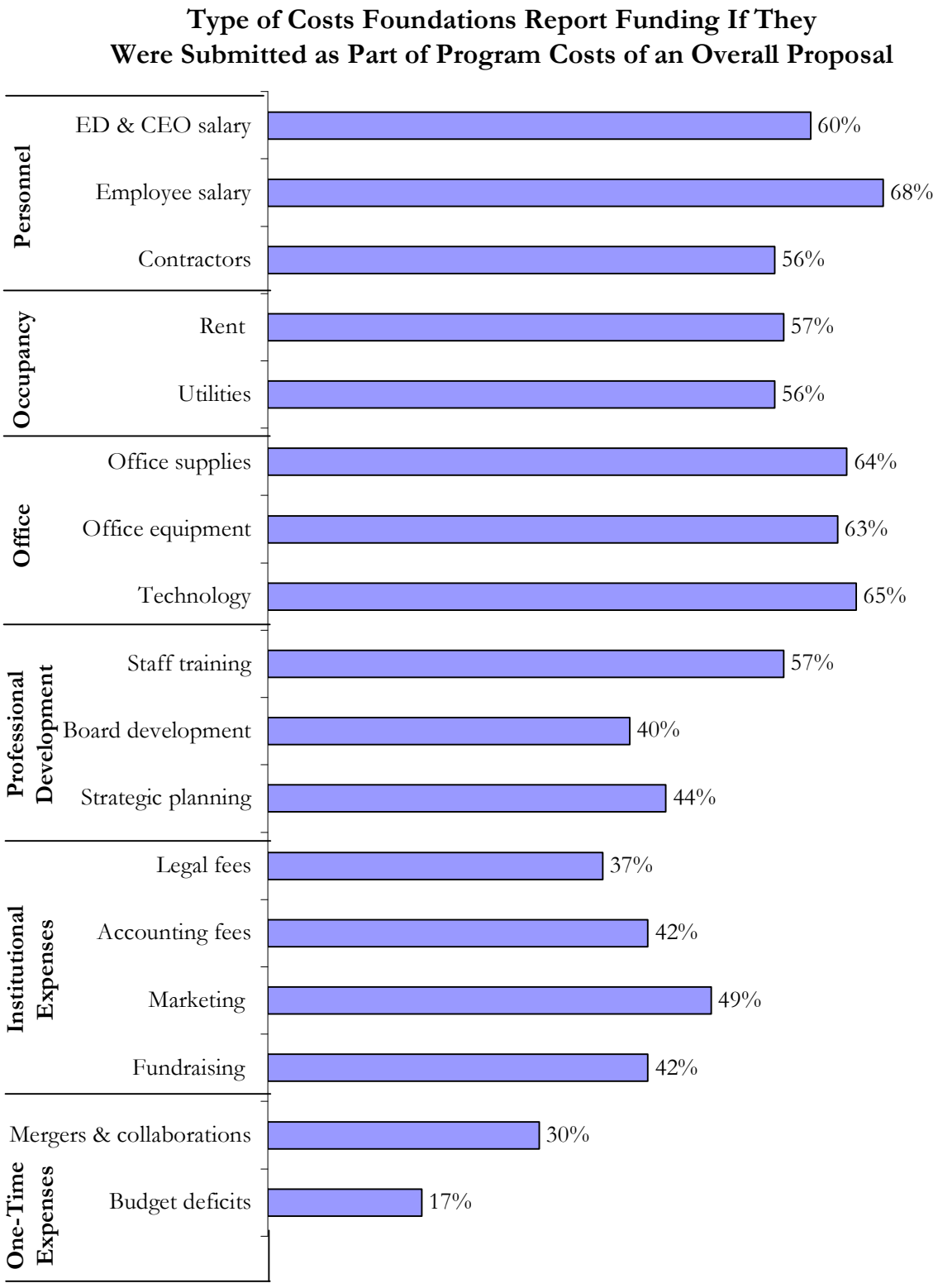

Figure 1.2. Percentage of foundations funding overhead if submitted as its own proposal

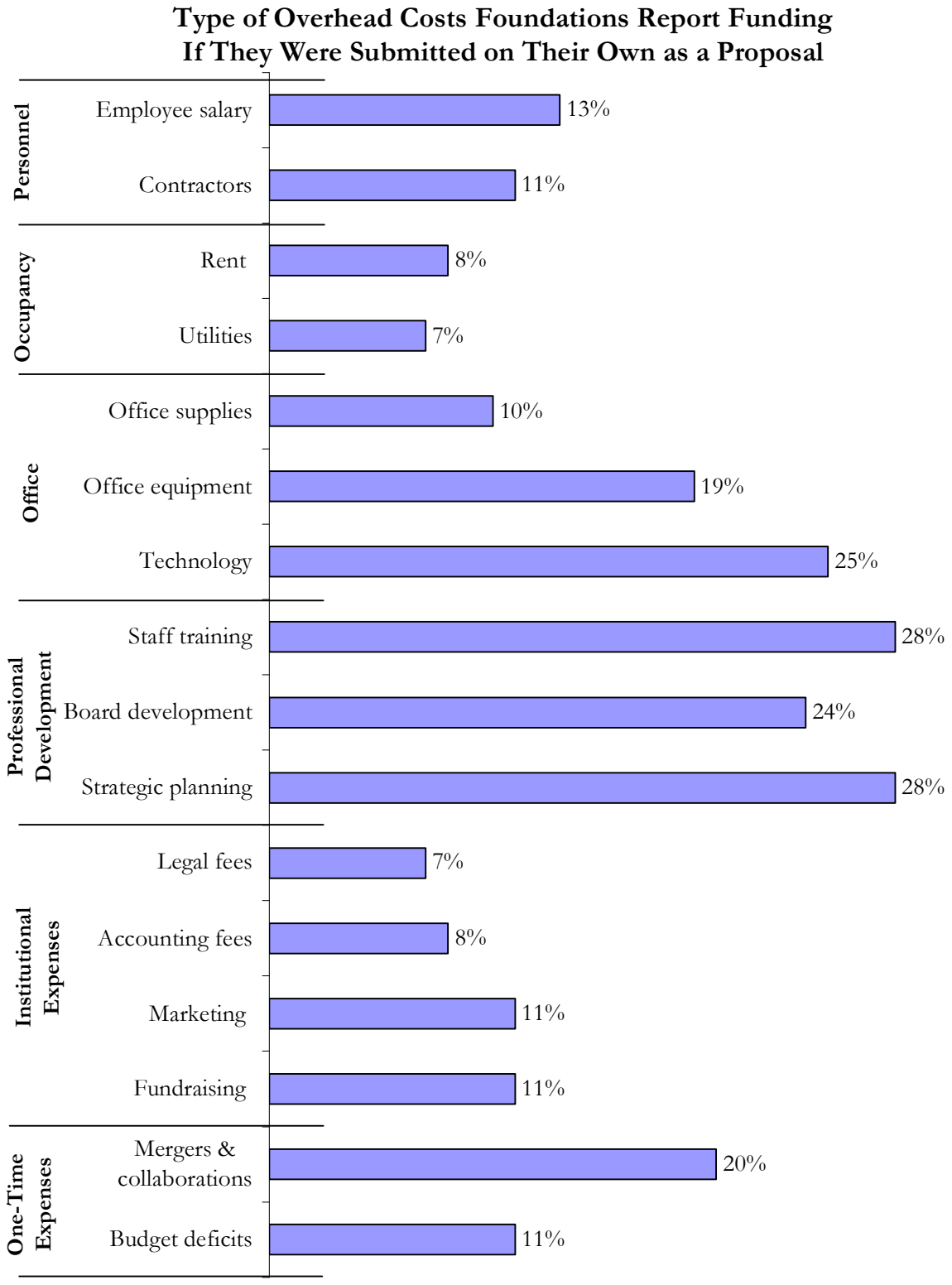

Table 1.7. Logit Model Regressions, Foundation Study

	FundAdmin3 Foundation funds all overhead		FundAdmin4 Foundation funds some overhead		FundAdmin5 Foundation funds no overhead	
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.
Staff: 1 – Reference						
Staff: 2-3	0.3126		0.6265		0.2181	
Staff: 4-7	0.4891		0.0696		-0.7699	
Staff: 8+	0.5040		1.0454		0.3806	
Staff: unknown	0.3556		0.2051			
Asset: less than 4.5M – Reference						
Asset: 4.5M to 20M	-0.5349		-0.2082		0.6265	
Asset: 21M to 40M	-0.5076		-0.9		-0.1380	
Asset: 41M to 100M	-0.4284		-0.6599		0.1939	
Asset: More than 100M	-1.2094		-0.7429		1.5704	*
Giving: less than 300K – Reference						
Giving: 300K to 900K	1.0639	**	1.066	*	-0.8555	
Giving: 900K to 2M	0.9998	*	1.318	*	-0.4600	
Giving: 2M to 6.5M	1.2395	*	1.6354	**	-0.9261	
Giving: 6.5M+	1.8984	**	1.4275	*	-2.3857	**
Age: less than 10 – Reference						
Age: 10-19	-0.7656	*	-0.2707		0.6249	
Age: 20-39	-0.9239	*	-0.4518		0.7062	
Age: 40-54	-1.0039	**	-0.3043		0.9738	*
Age: Over 55	-0.6980		-0.0505		0.8396	
Type of Fnd.: Independent – Reference						
Type of Fnd.: Corporate	-0.1677		0.1778		0.4905	
Type of Fnd.: Community	-1.2622	***	-1.1846	**	1.1019	*
Type of Fnd.: Unknown	-0.2273		-0.6651			
Funding Area: Local – Reference						
Funding Area: National & Where Co. is Located	-1.0491	***	-1.4191	***	0.2249	
Funding Area: National & International	-0.5857		-0.9928		-0.0541	
Funding Area: Unknown	-0.9687		0.5654			
Granting Area: Pubic Society Benefit – Reference						
Granting Area: Education	-0.3521		-0.5955	*	0.0200	
Granting Area: Human Services	0.7897	***	0.9524	**	-0.4470	
Granting Area: International	0.5244		0.8128		0.1394	
Granting Area: Religion	-0.2567		-0.3099		0.2762	
Granting Area: Health	0.0872		0.1372		-0.0348	
Granting Area: Environment	0.0466		0.0931		0.0294	
Granting Area: Arts	0.2178		0.0691		-0.3942	
Granting Area: Other	0.3670		-0.098		-0.7752	**
Granting Area: Unknown	-1.1642		-1.931			
Region: East	-0.4019		-0.5145		0.0840	
Region: South	0.0070		-0.0359		0.0615	
Region: West	0.3241		-0.0411		-0.8031	*
Region: Unknown	-0.0298		-0.9911			
Constant	0.7157		1.2532	*	-1.4222	**

Statistical Significance: *p>.05, **p>.01, ***p>.001

Table 2.1. Sample Statistics, Nonprofit Survey

	Frequency	Valid Percent
Type of Org.: Human Services	491	55.8
Type of Org.: Education	389	44.2
Type of Org.: Large – Education	26	3.0
Type of Org.: Large - Human Services	16	1.8
Type of Org.: Medium – Education	114	13.0
Type of Org.: Medium - Human Services	159	18.0
Type of Org.: Small – Education	130	15.8
Type of Org.: Small - Human Services	178	20.2
Type of Org.: Very Small - Education	119	13.5
Type of Org.: Very Small - Human Services	138	15.7
Revenue: Very Small ($500,000 or less)	268	30.6
Revenue: Small ($500,001 - $2,000,000)	220	25.1
Revenue: Medium ($2,000,001-$10,000,000)	230	26.2
Revenue: Large ($10,000,001 or more)	159	18.1
Percent of Unrestricted Revenue: Low (10% and less)	304	39.1
Percent of Unrestricted Revenue: Medium (10.1%-29.9%)	391	50.3
Percent of Unrestricted Revenue: High (30% or more)	82	10.6
Charitable Revenue: Very Low ($80,000 or less)	177	22.1
Charitable Revenue: Low ($80,001 - $500,000)	204	25.5
Charitable Revenue: Medium ($500K - $1.5M)	199	24.9
Charitable Revenue: High ($1.5M or more)	220	27.5
Percent of Charitable Revenue from Foundations: No Foundation Support	185	24.0
Percent of Charitable Revenue from Foundations: Low (.0015%-10%)	268	34.8
Percent of Charitable Revenue from Foundations: Medium (11%-40%)	186	24.2
Percent of Charitable Revenue from Foundations: High (41% or greater)	131	17.0

N=880

Table 2.2. Descriptive Statistics, Nonprofit Survey

Who Pays for Overhead (1=Cannot Fund, 2=Fnds, 3=Others)	Mean	SD	N
Executive Director	2.70	0.595	786
Rent	2.70	0.591	669
Utilities	2.75	0.547	753
Legal fees	2.72	0.625	738
Accounting fees	2.76	0.522	797
Marketing	2.62	0.690	772
Fundraising	2.67	0.626	801
Current state of funding for overhead expenses	2.99	0.984	848

Reasons for inadequate funding (select all that apply)			
External pressure to keep admin expenses low	0.20	0.403	808
Not enough state appropriations	0.10	0.299	808
Govt grants do not provide enough money for admin expenses	0.14	0.343	808
Other fundraising priorities	0.14	0.351	808
Never thought to ask	0.02	0.131	808
Foundations want to pay program, not admin costs	0.38	0.486	808
Corporate funders do not pay enough for admin expenses	0.08	0.270	808
Admin expenses easiest place to cut budget	0.12	0.325	808
Other funding sources do not pay enough for admin expenses	0.12	0.319	808
Don't know	0.02	0.135	808
Other	0.07	0.256	808

Methods to Request Admin Funding from Foundations(1=Yes, 2=No)	Mean	SD	N
Requested in past three years	1.48	0.500	829
Received in past three years	1.43	0.495	533
As a % of total budget	1.45	0.498	766
As a set dollar amount	1.55	0.498	755
In project budget	1.37	0.483	767
General operating grants	1.69	0.465	792

Condition of Overhead (1-to-5 scale)			
Accounting software	3.81	0.952	782
Qualifications of accounting personnel	4.12	0.915	803
Computer system	3.75	0.966	803
Condition of equipment & vehicles	3.56	0.916	711
Fundraising software	3.26	1.253	584
Benefits for employees	3.55	1.218	731
Pay rate of administrative staff	3.22	1.003	752
Auditing of financial accounts	4.31	0.868	778
Fundraising computer software	3.19	1.267	562
Facilities	3.68	1.023	784
Experience of fundraising staff	3.55	1.053	693
Overall financial stability	3.67	1.036	822

Organizational Information	M	SD	N
Total revenue	20,182,349	134,479,764	878
Percentage of revenue able to spend on overhead	16.45	15.71	777
Charitable revenue	4,113,512	27,452,791	833
Percent charitable revenue from foundation grants	18.53	25.09	770

Table 2.3. Correlation Matrix, Nonprofit Survey

	State of Funding			Condition of Infrastructure		
	Underfunded	Just Enough	Adequate	Poor	Adequate	Good
Revenue: Very Small	0.100**	0.011	-0.129***	0.210***	0.021	-0.199***
Revenue: Small	-0.054	0.120***	-0.051	0.027	0.018	-0.021
Revenue: Medium	0.026	-0.058	0.037	-0.120***	0.056	0.065#
Revenue: Large	-0.082*	-0.089**	0.175***	-0.141***	-0.105**	0.197***
% Spend on Admin. Low	0.033	-0.065#	0.025	0.023	-0.040	0.063
% Spend on Admin. Medium	0.018	0.064#	-0.025	-0.010	0.076*	0.049
% Spend on Admin. High	0.025	0.038	-0.046	0.069*	0.028	-0.037
Charitable Rev.: Very Small	0.080*	0.007	-0.104**	0.152***	0.058	-0.185***
Charitable Rev.: Small	0.028	0.085*	-0.091**	0.068*	-0.024	-0.007
Charitable Rev.: Medium	0.004	-0.007	0.022	-0.093**	0.065#	0.030
Charitable Rev.: Large	-0.075*	-0.094**	0.157***	-0.127***	-0.084*	0.148***
% Rev. Fnds: None	-0.037	-0.026	0.055	0.075*	-0.045	0.012
% Rev. Fnds: Low	0.012	0.011	0.008	-0.021	-0.035	0.128***
% Rev. Fnds: Medium	0.083*	0.028	-0.089**	0.000	0.094**	-0.019
% Rev. Fnds: High	0.038	0.002	-0.022	0.023	0.122***	-0.080*
Human Services	0.079*	0.024	-0.071*	0.048	0.047	-0.041
Education	-0.079*	-0.024	0.071*	-0.048	-0.047	0.041
Requested in past three years	-0.010	-0.034	0.022	-0.020	-0.038	0.030
Received in past three years	0.067	-0.056	-0.012	0.101*	-0.059	-0.038
As a % of total budget	-0.045	0.046	-0.006	0.051	-0.002	-0.073*
As a set dollar amount	-0.051	0.024	0.024	0.097**	-0.032	-0.073*
In project budget	-0.021	0.011	0.002	0.032	0.002	-0.071*
General operating grants	-0.029	0.029	-0.014	-0.004	-0.054	0.002
External pressure to keep admin low	0.060	0.207***	-0.257***	0.017	0.114***	-0.092**
Not enough state appropriations	0.087*	0.098**	-0.191***	0.004	0.004	-0.031
Govt grants do not provide enough money for admin expenses	0.220***	0.004	-0.232***	0.071*	0.051	-0.070*
Other fundraising priorities	0.104**	0.119***	-0.215***	0.051	0.061	-0.091**
Never thought to ask	0.051	0.033	-0.080*	0.079*	0.026	-0.104**
Foundations want to pay program, not admin costs	0.355***	0.104**	-0.456***	0.182***	0.104**	-0.183***
Corporate funders do not pay enough for admin expenses	0.098**	0.079*	-0.177***	0.034	0.080*	-0.084*
Admin easiest place to cut budget	0.083*	0.145***	-0.215***	0.031	0.119***	-0.113***
Other funding sources do not pay enough for admin expenses	0.137***	0.074*	-0.218***	0.158***	0.025	-0.129***
Don't know	0.004	0.085*	-0.083	-0.005	-0.001	-0.018
Other	0.001	0.095**	-0.123***	0.078*	-0.015	-0.062
State_Underfunded	1.000	-0.470	-0.510***	0.386***	0.119***	-0.333***
State_Just Enough		1.000	-0.438***	-0.095**	0.165***	-0.055
State of Funding Adequate			1.000	-0.272***	-0.258***	0.406***
Stability_Poor				1.000	-0.230***	-0.431***
Stability_Adequate					1.000	-0.640***

Statistical Significance: #p<.1, *p>.05, **p>.01, ***p>.001

Figure 2.1. The percentage of human services and educational organizations reporting on the state of overhead funding by revenue size

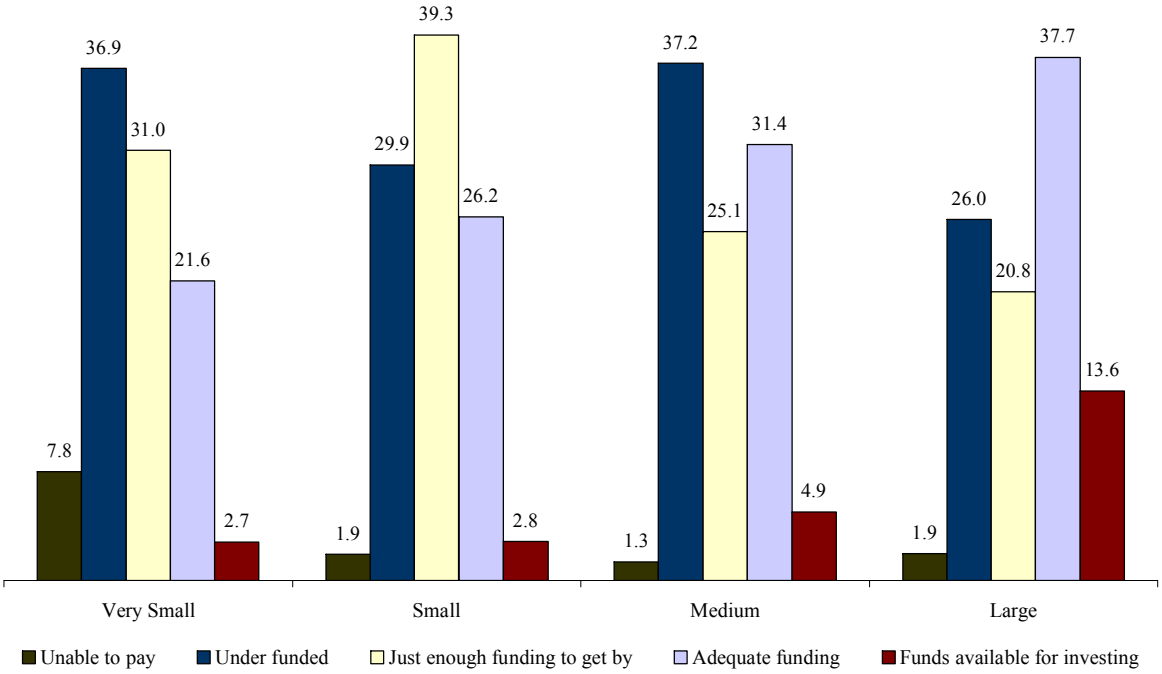

Figure 2.2. Percentage of human services and educational organizations reporting on the state of overhead funding by the type of nonprofit organizations

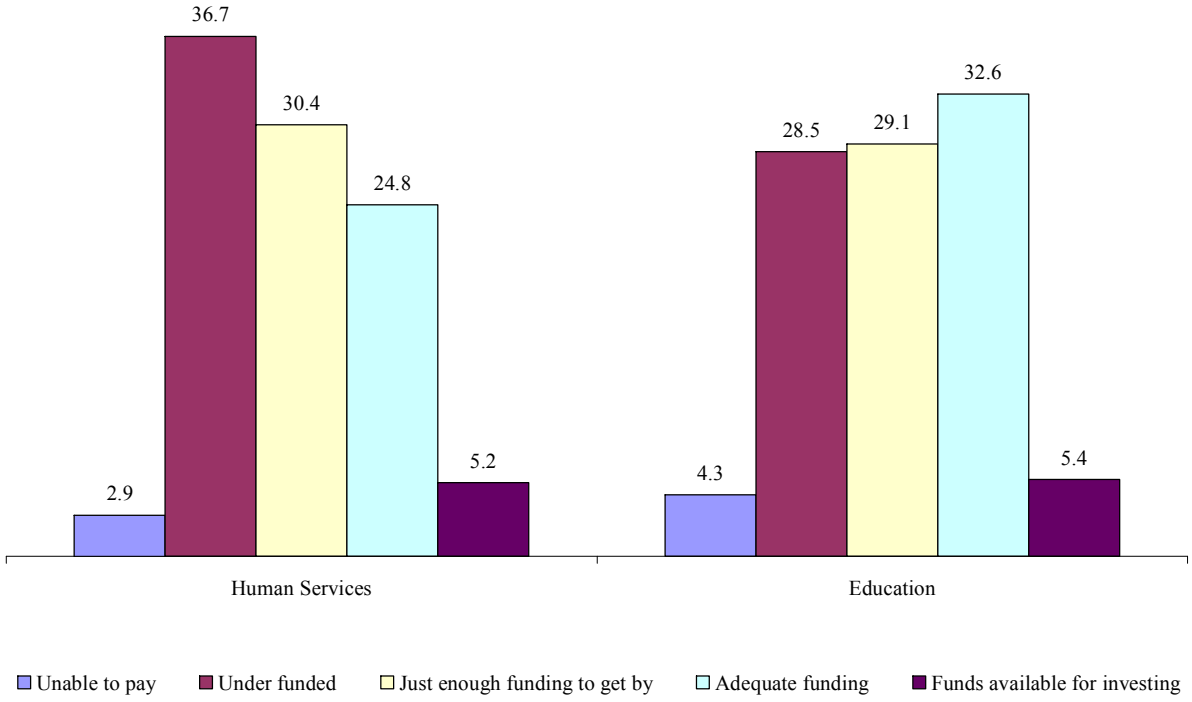

Figure 2.3. Reasons human services and educational organizations state they have inadequate funds for overhead
(percentage of nonprofits' reporting)

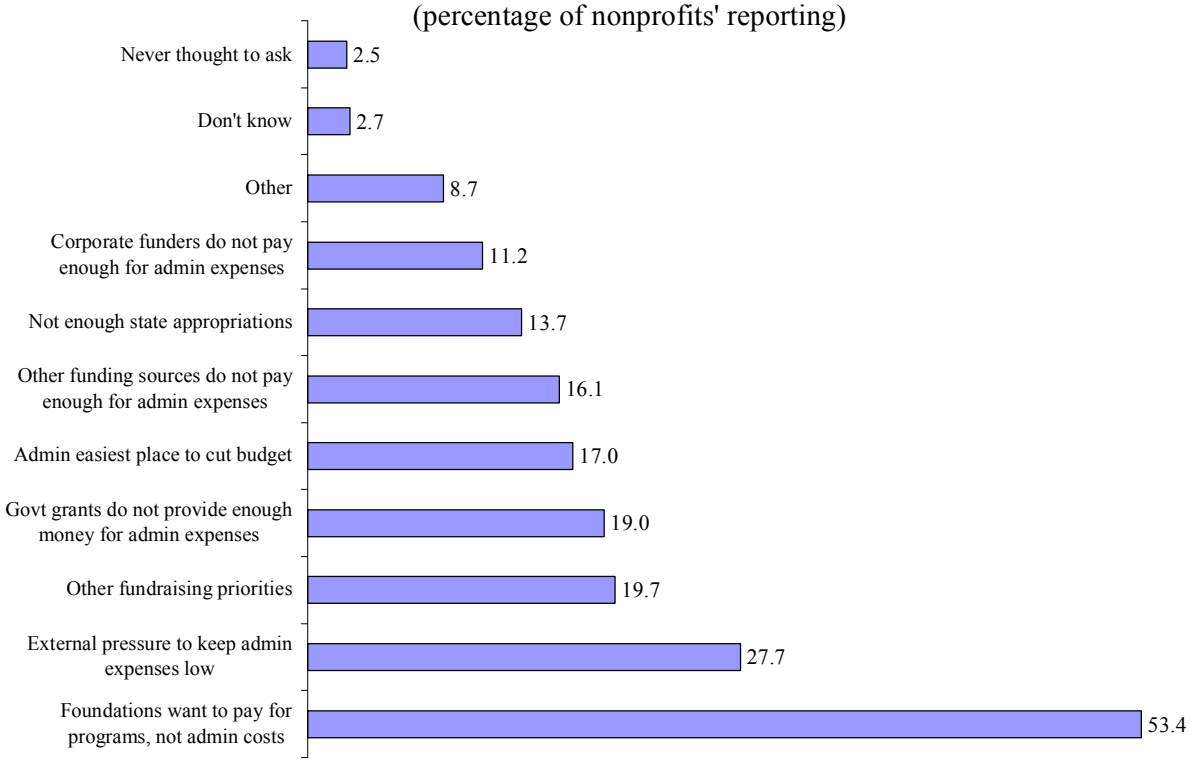

Figure 2.4. Percentage of educational and human services organizations reporting the state of their overhead funding and the overall condition of their overhead expenses

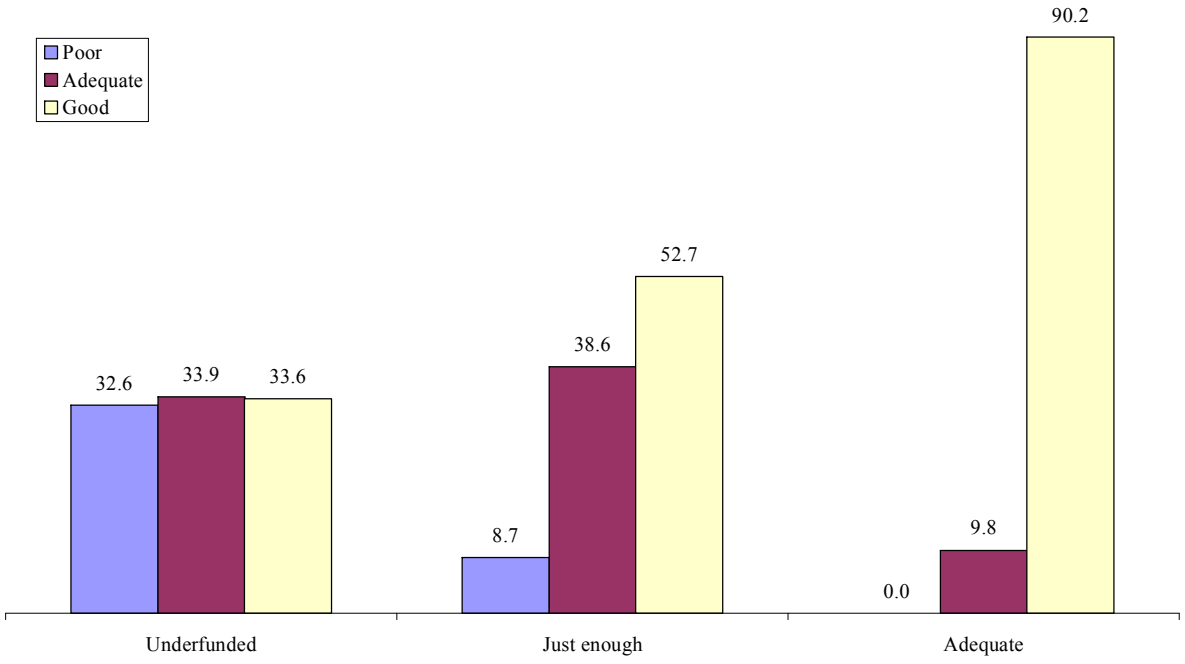

Figure 2.5. Percentage of educational and human services organizations reporting the condition of overhead expenses by those who report inadequate overhead funding

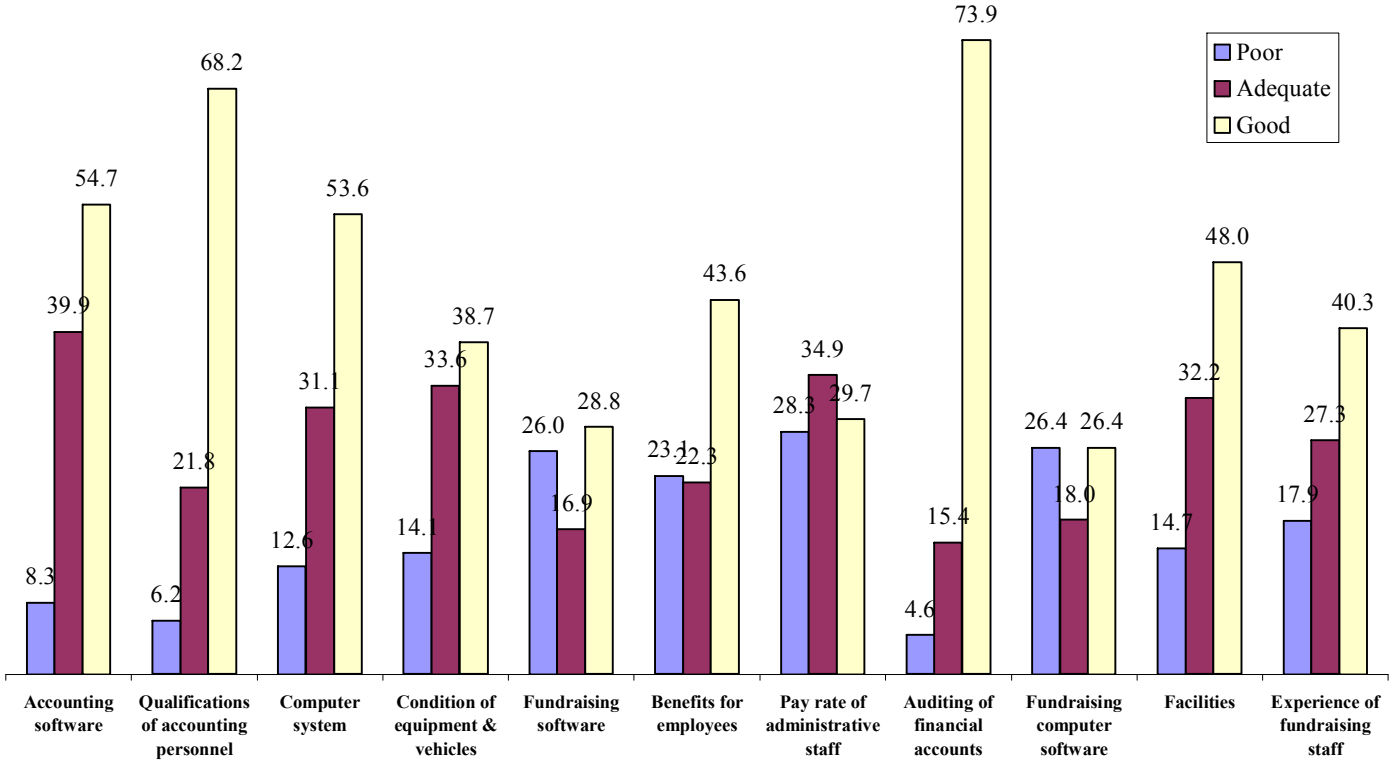

Table 2.4. Crosstabulations, Nonprofit Survey (percentage)

	State of Funding			Condition of Infrastructure		
	Under-funded	Just Enough	Adequate	Poor	Adequate	Good
Revenue: Very Small ($500K or less)	36.7	31.2	21.8	55.1	32.1	22.1
Revenue: Small ($500K - $2 million)	21.9	33.2	21.8	24.5	26.3	24.2
Revenue: Medium ($2 - $10 million)	27.7	22.1	28.5	12.7	30.4	28.8
Revenue: Large ($10 million or more)	13.8	12.6	27.8	4.2	11.2	25.0
% Spend on Admin. Low (10% or less)	36.7	29.6	36.3	37.3	31.3	37.3
% Spend on Admin. Medium (10% – 20%)	45.7	49.4	42.6	43.2	50.9	46.7
% Spend on Admin. High (30% or more)	10.3	11.1	7.4	14.4	10.7	8.3
Charitable Rev.: Very Small ($80K or less)	24.4	20.6	14.1	35.6	24.1	13.3
Charitable Rev.: Small ($80K - $500K)	24.8	28.9	17.6	30.5	21.4	22.9
Charitable Rev.: Medium ($500K - $1.5 million)	22.8	22.1	23.9	12.7	27.2	23.8
Charitable Rev.: Large ($1.5 million or more)	20.6	18.6	34.9	11.0	18.8	30.8
% Rev. Fnds: None	19.0	19.4	24.3	28.8	17.9	21.5
% Rev. Fnds: Low (.0015% - 10%)	31.2	31.2	31.0	28.0	27.7	35.8
% Rev. Fnds: Medium (11% - 40%)	25.7	22.9	15.8	21.2	27.7	20.4
% Rev. Fnds: High (41% or more)	16.7	15.0	13.7	16.9	22.3	12.3
Human Services	50.7	61.9	59.8	61.9	59.8	54.0
Education	38.9	42.3	49.3	38.1	40.2	46.0

Table 2.5. OLS Models, Nonprofit Study

	Type of Org. (Education Y/N)	Log Revenue	% Unrestricted Revenue	Log Charitable Revenue	Log Non-Charitable Revenue	% Char. Rev. from Fnds.
State of Overhead Funding	0.117	0.087***				
	0.093		-0.000			
	0.145*			0.035***		
	0.069					-0.001
	0.142*			0.035***	0.003	
	Yes	0.059**				
	Yes		-0.002			
	Yes			0.025		
	Yes					0.002
	Yes			0.025	-0.002	
	No	0.123***				
	No		0.002			
	No			0.047**		
	No					-0.005*
	No			0.047**	0.008	
Average Condition of Infrastructure	0.024*	0.114***				
	0.030		-0.002			
	0.047*			0.045***		
	0.015					-0.000
	0.046			0.044**	0.010**	
	Yes	0.095***				
	Yes		-0.003			
	Yes			0.040***		
	Yes					-0.000
	Yes			0.039***	0.007	
	No	0.138***				
	No		-0.000			
	No			0.049***		
	No					-0.000
	No			0.488***	0.013*	

Note: *p<.05, **p<.01, ***p<.001
Education: Yes = only educational organizations; No=only human service organizations