



## READER'S GUIDE TO THE 2014 990-PF FOR THE FISCAL YEAR ENDED JULY 1, 2014 - JUNE 30, 2015

The annual 990-PF is a public document that provides useful information about a private foundation's financial and charitable activities. The IRS uses it to assess excise taxes owed by a foundation and to monitor certain activities. The underlying tax rules for private foundations are complicated, so it's not surprising that some of the information provided on the 990-PF is often misunderstood. We hope this Reader's Guide will demystify the key information contained in the 990-PF.

We have organized The Patterson Foundation's (TPF) information from the 2014 990-PF into charts that show some of the information that people most often seek, as well as answers to some of the questions we're asked most frequently. We provide specific references to the location in the tax return where the information can be found.

The 2014 990-PF can be found at <http://www.thepattersonfoundation.org>.

The year the tax return is labeled is based upon the first day of TPF's fiscal year. Therefore, the 2014 990-PF is based on the financial information from the fiscal year of July 1, 2014 – June 30, 2015.

The following are key data points and answers to frequently asked questions for TPF:

### KEY POINTS FOR THE PATTERSON FOUNDATION

On February 28, 1997, Dorothy Clarke Patterson established an irrevocable trust fund known as The Patterson Foundation (TPF). Mrs. Patterson, upon her death in 2007, bequeathed approximately \$200 million to TPF with no limitations on charitable activities.

TPF believes that New Realities emerge when entities work together and leverage resources innovatively and for sustainability. Rather than accepting proposals or working through grant cycles, TPF selects its initiatives based on an alignment of Leadership, Willingness, Readiness, Capacity and Culture. TPF supports each strategic initiative and partnership for a finite period of time and with value-added resources beyond money, including: Strategic Communications, Change Management, Financial Thrivability and Strategic Technology.

TPF works in Sarasota, Manatee, Charlotte and DeSoto counties in Florida as well as with national partners in the field of the chosen initiative. TPF employs a virtual operating model with limited staff, engaging initiative consultants who are selected for their expertise, desire to work through collaborations and for having a passion for creating new realities. TPF understands it has limits on the number of partnerships it can support for a meaningful impact at a given time.

# FREQUENTLY ASKED QUESTIONS

## PAYOUT AND DISTRIBUTABLE AMOUNT

In this section we will use the term **PAYOUT** and **DISTRIBUTION**. We feel it is important to take a moment to explain the two terms in order to avoid confusion. Payout is the actual cash payments of a distributable amount. Distribution or distributable amount is the calculated sum of grants or expenditures that are required to be paid within a two year period.

### **1. How is the required distributable amount calculated?**

Although the calculation is a bit complicated, the concept is simple. IRS rules require TPF to pay out 5 percent of its average “non-charitable use assets,” which means the investment assets and any other assets that are not used directly in the charitable work of TPF. The actual calculations involve several steps as summarized on page 8, in Parts X, XI, and XII of the tax return. If TPF overpays the required distributable amount, then the overage can be carried forward for up to 5 years. The payout of the required distributable amount in a tax year may be paid in a two year period, because the ending asset balance used in the calculation of the current year distributable amount is unknown until the end of the fiscal year.

### **2. What was the required payout for 2014?**

The required payout for 2014 was \$9,948,158, as shown on page 9, Part XIII, line 2, column c. During 2014, TPF paid \$10,036,661 as shown on page 9, Part XIII, line 4, resulting in an overpayment of \$88,503 (page 9, Part XIII, line 4d, column (d)).

### **3. How much was TPF required to distribute in 2014?**

TPF was required to distribute \$11,256,145 in 2014 as shown on page 8, Part XI, line 7. As explained in number 1 above, TPF has until 2015 (the fiscal year ending June 30, 2016) to payout this amount in order to avoid penalty. All reasonable operating expenses count toward qualifying distributions in order to meet TPF’s required distributable amount, provided they further the charitable goals of TPF. This includes grants as well as TPF’s operating costs.

### **4. How much is TPF required to payout in 2015?**

The 2015 cash payout is calculated by subtracting from the 2014 required distributable amount of \$11,256,145, as shown in number 3 above, the qualifying distributions and any excess distributions. In 2014, \$88,503 of the \$11,256,145 qualifying distributions, as shown on page 8, Part XI, Line 6, is considered excess distributions, as explained in number 2 above, and decreases the distributable amount for 2015. Therefore, the amount undistributed for 2014 was \$11,167,642 and is required to be paid out during 2015 as shown on page 9, Part XIII, line 6f.

## ADMINISTRATIVE AND OTHER COSTS

### **5. How did TPF manage administrative overhead in 2014?**

The term “administrative overhead” can be interpreted in many different ways and the format of the return is not very clear on this question. Therefore, we will provide additional explanation of the different components of the 2014 expenses. Total 2014 expenses (excluding grant expense), totals \$4,719,323 (page I, Part I, Line 24(a)). The operating costs include two

major components: (1) initiative support to pay initiative manager and operational costs of the strategic initiatives described above, (2) administrative costs to operate TPF, including salaries and benefits for support functions, taxes, investment custody and management fee, professional services, rent, office supplies, etc.

## ADMINISTRATIVE AND OTHER COSTS (CONTINUED)

### 5. How did TPF manage administrative overhead in 2014? (Continued)

The format of the tax return does not allow a foundation to display these operating costs, so we have provided the following information:

\$2,554,409	Initiative support (qualifying charitable distributions)
<u>\$2,164,914*</u>	Administrative costs to operate TPF (“administrative overhead”)
\$4,719,323	Total operating costs

*\*Included in this number is \$1,041,160 of investment custody and management fees that is a fixed rate charged as a percentage of the fair value of the investments.*

### 6. What were TPF’s administrative overhead expenses in 2014 as a percentage of total expenses?

The answer depends on the definition of administrative overhead, as discussed in the answer to question 5. Total operating costs as a percentage of total expenses including grants is 53.15% (calculated as \$4,719,323 divided by \$8,878,930). The problem with this approach is that it includes costs of initiative support which is part of our programmatic support to the community and is therefore not just administrative costs.

We believe a better definition of “administrative overhead expenses” would exclude the costs of initiative support. Under this approach, the percentage for 2014 is 24.38% (calculated as \$2,164,914 divided by \$8,878,930).

Moreover, removing the investment custody and management fees of \$1,041,160 (because TPF cannot control these costs) changes the percentage to 12.66% (calculated as  $(\$2,164,914 - \$1,041,160) / \$8,878,930$ ).

## TAXES

### 7. I thought foundations were exempt from taxes. What kind of taxes do you pay?

Under IRS rules, foundations are exempt from income taxes, but they are required to pay a 1 to 2 percent excise tax on net investment income. Net investment income includes rent, interest, dividends, royalties, net realized capital gains, and other similar types of income, minus expenses for managing investments. The income and expenses that figure into this calculation are shown on page 1, column “b” of the 990-PF. TPF’s net taxable revenue in 2014 was \$31,469,604 (page 1, Part I, line 27b), resulting in an excise tax of \$314,696 (page 4, Part VI, line 5).

## KEY DATA POINTS FROM THE 2014 990-PF FOR THE PATTERSON FOUNDATION

Topic	2014	990-PF Reference	Comments
<b>Grant Accrual</b>	\$1,090,884	Included in Page 2, Part II, line 18, column (b)	2014 initiative commitments to be disbursed in 2015
<b>Total Charitable Distributions</b>	\$10,036,661	Page 8, Part XII, line 6	Charitable distributions were made up of approximately one-tenth in grant payments, with the remainder related to initiative support and management
<b>Excise Taxes</b>	\$314,696	Page 4, Part VI, line 5	Excise tax calculated as 1% of its net investment income of \$31,469,604 as shown on Page 1, Part I, line 27b, column (b)
<b>Compensation of Officers, Directors, and Corporate Trustee</b>	\$919,337	Page 6, Part VIII, line 1, column (c) (see detail at Statement 7 and Statement 14)	Investment management fees and custodial fees paid to Northern Trust (Trustee) amounted to \$575,051 of the total

