



READER'S GUIDE TO THE 2020 990-PF FOR THE FISCAL YEAR ENDED JULY 1, 2020 - JUNE 30, 2021

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 2020 990-PF into charts that show 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 2020 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 2020 990-PF is based on the financial information from the fiscal year of July 1, 2020 – June 30, 2021.

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.

As a private foundation, TPF is required to distribute approximately 5% of its average non-charitable use assets as described below. TPF views this 5% as a minimum amount in which to distribute in a given year. TPF is philosophically geared toward exceeding this amount when the opportunity to "do good" presents itself.

As a catalyst for social change, TPF understands the power of collaboration. Its non-traditional approach of partnering with existing networks and relationships allows its partners to focus on their core strengths, reduce inefficiencies and enhance effectiveness. TPF provides support to accelerate our partners' success.

TPF's passion for collaborative engagement with people and organizations informs its unique approach: Rather than maintain grant cycles or accept unsolicited proposals, TPF accelerates change by working with networks that are making a difference, primarily nonprofits and philanthropic foundations. TPF leverages existing relationships with subject matter experts and provides direct support, delivering the strategic insights and resources it takes to create new realities.

TPF strengthens the efforts of people, organizations and communities. TPF focuses on issues that address common aspirations and foster wide participation, along with ways organizations learn and share as they evolve. With the alignment of leadership, willingness, readiness, capacity and culture, TPF works in Sarasota, Manatee, Charlotte and DeSoto counties in Florida and with regional, national and global partners providing expertise while exchanging best practices.

TPF fosters collaboration by introducing independent initiative consultants to help its partners fill in gaps of specific knowledge, skills and expertise. This approach delivers strategic and tactical expertise beyond the typical foundation funding model. TPF focuses on building long-term relationships to ensure the thriving of the impact long past the life of the collaboration. TPF understands it has limits on the number of partnerships it can support for a meaningful impact at a given time.

TPF has continued its work throughout the pandemic and has entered each day focused on five constants that power its ability to thrive in the face of change while harnessing that change to work in new, impactful ways. This is achieved through five key actions: Caring → Connecting → Collaborating → Contributing → Creating. While working with its partner organizations, TPF is conscious that people and organizations are navigating through three phases in response to the pandemic: Cope – Adapt – Innovate.

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 tax year 2020?

The required payout for tax year 2020 (fiscal year ending June 30, 2021) was \$4,750,196, as shown on page 9, Part XIII, line 2, column c. During tax year 2020, TPF paid \$10,688,756 as shown on page 9, Part XIII, line 4, resulting in an overpayment of \$ 5,938,560 (page 9, Part XIII, line 4d, column (d)).

3. How much was TPF required to distribute in tax year 2020?

TPF was required to distribute \$12,652,261 in tax year 2020 as shown on page 8, Part XI, line 7. As explained in number 1 above, TPF has until tax year 2021 (the fiscal year ending June 30, 2021) 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 2021?

The 2021 cash payout is calculated by subtracting from the 2020 required distributable amount of \$12,652,261 as shown in number 3 above, the qualifying distributions and any excess distributions. In 2020, \$5,938,560 of the \$12,652,261 qualifying distributions, as shown on page 8, Part XI, Line 7, is considered excess distributions, as explained in number 2 above, and decreases the distributable amount for 2021. Therefore, the amount undistributed for 2020 was \$6,713,701 and is required to be paid out during 2021 as shown on page 9, Part XIII, line 6f.

ADMINISTRATIVE AND OTHER COSTS

5. How did TPF manage administrative overhead in 2020?

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 2020 expenses. Total 2020 expenses (excluding grant expense), totals \$5,768,485 (page I, Part I, Line 24, column a). The operating costs include two major components: (1) initiative support to pay initiative leaders 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.

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

\$3,427,251	Initiative support (qualifying charitable distributions)
<u>\$2,341,234*</u>	Administrative costs to operate TPF (“administrative overhead”)
\$5,768,485	Total operating costs

**Included in this number is \$970,272 of investment custody and management fees that is charged as a percentage of the fair value of the investments.*

ADMINISTRATIVE AND OTHER COSTS (Continued)

6. What were TPF’s administrative overhead expenses in 2020 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 48.18% (calculated as \$5,768,485 divided by \$11,973,318). 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 2020 is 19.55% (calculated as \$2,341,234 divided by \$11,973,318).

Moreover, removing the investment custody and management fees of \$970,272 (because TPF cannot control these costs) changes the percentage to 11.45% (calculated as \$2,273,566 - \$970,272) / \$11,973,318).

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 1.39 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 I, column “b” of the 990-PF. TPF’s net taxable revenue in 2020 was \$21,388,335 (page I, Part I, line 27b), resulting in an excise tax of \$297,298 (page 4, Part VI, line 5).

KEY DATA POINTS FROM THE 2020 990-PF FOR THE PATTERSON FOUNDATION

Topic	2020	990-PF Reference	Comments
Grant Accrual	\$0	Included in Page 2, Part II, line 18, column (b)	2020 initiative commitments to be disbursed in 2021
Total Charitable Distributions	\$10,688,756	Page 1, Part I, line 26 column (d)	Charitable distributions include grant payments, payments for initiative support and payments for initiative management
Excise Taxes	\$297,298	Page 4, Part VI, line 5	Excise tax calculated as 1.39% of its net investment income of \$21,388,335 as shown on Page 1, Part I, line 27b, column (b)
Compensation of Officers, Directors, and Corporate Trustee	\$990,235	Page 6, Part VIII, line 1, column (c) (see detail at Statement 8 and Statement 15)	Investment management fees and custodial fees paid to Northern Trust (Trustee) amounted to \$690,105 of the total

