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 2010 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 2010 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 2010 990-PF is based on the financial information from the fiscal year of July 1, 2010 – June 30, 2011.

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). After her estate was settled in 2007, The Patterson Foundation grew to approximately $200 million with no giving designations but rather an unrestricted charter with infinite possibilities for good.

Unlike traditional foundations, TPF does not have a large internal staff, does not accept proposals, does not have grant cycles, nor do we have defined areas of focus. The Patterson Foundation undertakes areas of focus by working with existing or intentionally created relationships throughout the field of philanthropy and the non-profit sector. To its work, TPF engages initiative managers and organizational partners who are selected because of their area(s) of expertise, desire to work through collaborations, and passion for creating New Realities.

TPF believes that New Realities emerge when entities work together and leverage resources innovatively and for sustainability. As a result, The Patterson Foundation supports each strategic initiative and partnership for a finite period of time and with value-added resources beyond money. These resources include:

1) Strategic Communications  2) Financial Thrivability  3) Strategic Technology
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 2 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 which are required to be paid within a 2 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 the Foundation 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 2 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 2010?**
   The required payout for 2010 was $6,374,721, as shown on page 9, Part XIII, line 2, column c. During 2010, TPF paid $6,434,167 as shown on page 9, Part XIII, line 4, resulting in an overpayment of $59,446 (page 9, Part XIII, line 4d, column (d)).

3. **How much was TPF required to distribute in 2010?**
   TPF is required to distribute $10,669,072 in 2010 as shown on page 8, Part XI, line 7. As explained in number 1 above, TPF has until 2011 (the fiscal year ending June 30, 2012) 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 2011?**
   The 2011 cash payout is calculated by subtracting from the 2010 required distributable amount of $10,669,072, as shown in number 3 above, the qualifying distributions and any excess distributions. In 2010, $59,446 of expenses were qualifying distributions, as shown on page 8, Part XII, Line 6. Therefore, the amount undistributed for 2010 was $10,609,626 and is required to be paid out during 2011 as shown on page 9, Part XIII, line 6f

ADMINISTRATIVE AND OTHER COSTS
5. **What were TPF’s administrative overhead expenses in 2010 as a percentage of total assets?**
   The IRS has very specific rules on the types of organizations that foundations are permitted to grant money to. In order to carry out its strategic initiatives, TPF often incurs expenses that are paid directly to a for-profit entity or to an individual in carrying out the missions of the various initiatives which are charitable in nature. These expenses may not be reported as grants (page 1, line 25, column (d)) because they are not paid to a non-profit entity.
On the cash basis, TPF reported a total of $2,614,642 (page 1, line 24, column (d)) “Total operating and administrative expenses” used for charitable purposes. Of this amount, $1,717,679 was spent for TPF’s initiatives.

Administrative expenses (page 1, line 24, column (a)), excluding initiative expenses of $1,717,679 as a percentage of total assets (page 2, line 16, column (c)) equals .39%. In accordance with a study from the Council of Foundations in July of 2010, the median administrative overhead expense for a private foundation was .98% of total assets. TPF’s administrative expenses as a percentage of total assets were significantly below the average from participating private foundations in the survey.

**TAXES**

6. 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 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 2010 was $11,293,153 (page 1, Part I, line 27b), resulting in an excise tax of $225,863 (page 4, Part VI, line 5).

**KEY DATA POINTS FROM THE 2010 990-PF FOR THE PATTERSON FOUNDATION**

<table>
<thead>
<tr>
<th>Topic</th>
<th>2010</th>
<th>990-PF Reference</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Accrual</td>
<td>$4,178,138</td>
<td>Included in Page 2, Part II, line 18, column (b)</td>
<td>2010 initiative commitments to be disbursed in 2011, 2012 and 2013</td>
</tr>
<tr>
<td>Total Charitable Distributions</td>
<td>$6,434,167</td>
<td>Page 8, Part XII, line 6</td>
<td>Charitable distributions were made up of approximately half in grant payments, with the remainder related to initiative management</td>
</tr>
<tr>
<td>Excise Taxes</td>
<td>$225,863</td>
<td>Page 4, Part VI, line 5</td>
<td>Excise tax calculated as 2% of its net investment income of $11,293,153 as shown on Page 1, Part I, line 27b, column (b)</td>
</tr>
<tr>
<td>Compensation of Officers, Directors, and Corporate Trustee</td>
<td>$588,009</td>
<td>Page 6, Part VIII, line 1, column (c) (see detail at Statement I2)</td>
<td>Investment management fees paid to Northern Trust (Trustee) amounted to $310,509 of the total</td>
</tr>
<tr>
<td>Contributions by Dorothy C. Patterson Irrevocable Trust</td>
<td>$1,086,677</td>
<td>Schedule B, page 15, part I</td>
<td>TPF was funded in 2009 from the disposition of the estate. The amount received in 2010 was the remainder of the estate. TPF is fully funded in 2010.</td>
</tr>
</tbody>
</table>