



READER'S GUIDE TO THE 2012 990-PF FOR THE FISCAL YEAR ENDED JULY 1, 2012 - JUNE 30, 2013

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 2012 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 2012 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 2012 990-PF is based on the financial information from the fiscal year of July 1, 2012 – June 30, 2013.

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.

Rather than accepting proposals or working through grant cycles, TPF selects its partners based on Leadership, Willingness, Readiness, Capacity and Culture without limits on specific areas of focus. TPF accelerates the capacity of existing or intentionally created relationships throughout the field of philanthropy and non-profit sector. TPF uses a virtual operating model with

limited staff, engaging initiative consultants, selected for their expertise, desire to work through collaborations and having a passion for creating new realities. TPF knows it has limits on how many partnerships it can support for a meaningful impact.

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 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 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 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 2012?

The required payout for 2012 was \$10,276,242, as shown on page 9, Part X111, line 2, column c. During 2012, TPF paid \$10,498,134 as shown on page 9, Part X111, line 4, resulting in an overpayment of \$221,892 (page 9, Part X111, line 4d, column (d)).

3. How much was TPF required to distribute in 2012?

TPF is required to distribute \$10,701,416 in 2012 as shown on page 8, Part XI, line 7. As explained in number 1 above, TPF has until 2013 (the fiscal year ending June 30, 2014) 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 2013?

The 2013 cash payout is calculated by subtracting from the 2012 required distributable amount of \$10,701,416, as shown in number 3 above, the qualifying distributions and any excess distributions. In 2012, \$221,892 of the \$10,498,134 qualifying distributions, as shown on page 8, Part X11, Line 6, is considered excess distributions, as explained in number 2 above, and decreases the distributable amount for 2013. Therefore, the amount undistributed for 2012 was \$10,479,524 and is required to be paid out during 2013 as shown on page 9, Part XIII, line 6f.

ADMINISTRATIVE AND OTHER COSTS

5. How did TPF manage administrative overhead in 2012?

TPF operates differently than most foundations, and therefore, using the 990-PF definition of administrative overhead is not as descriptive or as informative as we would prefer.

Since announcing its approach in 2010, TPF has implemented an organizational model which emphasizes agility and flexibility. To this end, TPF operates with three paid staff members and engages independent consultants to support and manage its initiatives. In the 2011 tax year, TPF was involved in no less than 20 initiatives and engaged approximately 15 independent consultants at some point during the year. These consultants are typically responsible for lending their expertise to the initiative organizations in order to accelerate the capacity of the partnership. The value-added benefit of augmenting our funding dollars with human capital is depicted as overhead on the 990PF, when in fact, it is more closely associated with contributions and gifts. As a result of this reporting requirement, TPF believes the contributions and gifts figure (page 1, line 25) is understated by an amount equal to the cost of our independent consultants.

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 2012 was \$14,251,640 (page 1, Part I, line 27b), resulting in an excise tax of \$287,495 (page 4, Part VI, line 5).

KEY DATA POINTS FROM THE 2012 990-PF FOR THE PATTERSON FOUNDATION

Topic	2012	990-PF Reference	Comments
Grant Accrual	\$1,508,700	Included in Page 2, Part 1I, line 18, column (b)	2012 initiative commitments to be disbursed in 2013
Total Charitable Distributions	\$10,498,134	Page 8, Part XII, line 6	Charitable distributions were made up of approximately two-thirds in grant payments, with the remainder related to initiative management
Excise Taxes	\$285,033	Page 4, Part VI, line 5	Excise tax calculated as 2% of its net investment income of \$14,251,640 as shown on Page 1, Part 1, line 27b, column (b)
Compensation of Officers, Directors, and Corporate Trustee	\$856,579	Page 6, Part VIII, line 1, column (c) (see detail at Statement 8 and Statement 14)	Investment management fees and custodial fees paid to Northern Trust (Trustee) amounted to \$546,579 of the total