

# THE KRESGE FOUNDATION

## **Reader's Guide to the Form 990-PF**

A private foundation must make its annual Form 990-PF available for public inspection. The Kresge Foundation posts this form for download on the Web site, [www.kresge.org](http://www.kresge.org). The form provides information about the foundation's financial and charitable activities for the year as well as assesses any taxes owed by the foundation to the IRS.

The tax return form and rules can be complex, so we hope that this Reader's Guide will aid you in gaining a better understanding of our form. We have provided answers to some frequently asked questions as well as a table of key data points and their relevance by topic related to the return.

January 2011

## **Frequently Asked Questions**

### *Payout*

#### **How much was Kresge required to distribute in 2009?**

The foundation was required to distribute \$145,498,817 as shown on Page 8, Part XI, line 7. The term the IRS uses for the minimum 5 percent payout is the distributable amount. The actual amount of qualifying distributions for the foundation in 2009 was \$180,362,639 as shown on Page 8, Part XII, line 6.

#### **How is the required payout calculated?**

The IRS rules require the foundation to pay out 5 percent of its average non-charitable use assets, which is equivalent to the investment assets and any other assets that are not used directly in the charitable work of the foundation, adjusted for income tax and recoveries of amounts previously treated as qualifying distributions. This calculation is summarized on Page 8 in Parts X and XI of the return.

#### **What types of disbursements count toward Kresge's annual payout requirement?**

Grants paid, program-related investments, amounts set aside for specific charitable projects (for the foundation, capital challenge grants), exempt operating costs (those that further the charitable purpose of the foundation), and amounts paid to acquire assets used directly in carrying out charitable purpose, all count toward payout.

### *Administrative and other costs*

#### **What were the foundation's 2009 exempt expenses as a percentage of grant payout and as a percentage of average assets?**

Total exempt expenses as a percentage of grant payout was 6.91 percent (calculated as \$11,659,078 Page 1, Part I, line 24, column (d) divided by \$168,703,561 which consists of \$103,058,561 Page 1, Part I, line 25, column (d) plus \$10,920,000 Page 8, Part XII, line 1b plus \$54,725,000 Page 8, Part XII, line 3a). Survey results of peer foundations with greater than \$2 billion in average assets reveal exempt expenses as a percentage of grant payout of 15.55 percent for 2009.

## Frequently Asked Questions (continued)

Total exempt expenses as a percentage of average assets was .41 percent (calculated as \$11,659,078 Page 1, Part I, line 24, column (d) divided by \$2,845,476,331 Page 8, Part X, line 5). Survey results of peer foundations with greater than \$2 billion in average assets reveal exempt expenses as a percentage of average assets of 1.02 percent for 2009.

### *Taxes and other*

#### **What kind of taxes does the foundation pay?**

The foundation is exempt from income taxes under IRS rules. However, it is required to pay a 2 percent excise tax on net investment income, which can be reduced to 1 percent if certain criteria are met. Net investment income includes interest, dividends, net realized capital gains, and other investment income, minus expenses for managing investments. The net investment income figure used in this calculation is shown on Page 1, Part I, line 27b, column (b). The 2009 net investment income was zero due to losses, which resulted in an excise tax of zero as shown on Page 4, Part VI, line 5 of the 990-PF.

The foundation is also subject to unrelated business income tax under IRS rules due to the nature of income derived from some of the investment vehicles held in the investment portfolio. This tax is calculated using the tiered corporate tax rate schedule.

#### **Why do some foundations pay 1 percent in excise taxes, and other pay 2 percent?**

A foundation may reduce its excise tax rate from 2 percent to 1 percent if it disburses an amount above its required minimum distribution amount. In 2009, the foundation needed to distribute \$145,987,163 (Page 3, Part V, line 7) to qualify for the lower rate, which it qualified for by distributing \$180,362,639 (Page 3, Part V, line 8).

### **The Kresge Foundation 2009 990-PF Key Data Points**

Topic	Line Reference	Dollar Value	Comments
Administrative and other costs	Page 1, Part I, line 24, column (d)	\$11.66M	Consists of direct grantmaking expenses including salaries and operating costs of the staff who make and manage the grants, direct charitable expenses such as consulting and convening costs paid to support the work of our grantees, administrative costs to operate the foundation, including salaries and benefits for support functions such as finance and human resources, professional fees, office expenses, etc. Represents the costs allocated toward charitable purposes that are included in the foundation's qualifying distributions in Part XII.
Grants paid	Page 1, Part I, line 25, column (d)	\$103.06M	Represents grants approved and paid in 2009. The foundation has an IRS private letter ruling (blanket set aside) for capital grants. To compare the foundation's total payout with that of other foundations, the \$54.73M of set asides as reported in Part XII, line 3b must be added to this total (\$157.79M). The foundation also made \$10.92M of program-related investments in 2009 for a grand total in giving of \$168.71M.

<b>Topic</b>	<b>Line Reference</b>	<b>Dollar Value</b>	<b>Comments</b>
Minimum distribution ratio	Page 3, Part V, line 3	5.13%	Represents the distribution ratio used in determining the required distribution for the foundation to qualify for the one percent excise tax; this ratio is based on the average distribution ratios from the five previous years.
Reduced tax rate minimum distribution	Page 3, Part V, line 7	\$145.99M	The amount of distributions required by the foundation to qualify for the one percent excise tax.
Tax due	Page 4, Part VI, line 9	\$0	The foundation had a net loss position for 2009. Capital losses can only be taken to the extent of capital gains and no carryforward or carryback of losses is allowed under the code. Therefore, the foundation's excise taxes, calculated as one percent of its net investment income as shown on Page 1, Part I, line 27b, column (b), were zero.
Compensation of officers, directors, and trustees	Page 6, Part VIII, line 1(c)	\$1.97M	The attached statement (number 24 in the return) provides a listing of 2009 compensation and benefits paid to the foundation's officers and Board of Trustees.
Compensation of five highest paid Employees (other than officers, directors, and trustees)	Page 6, Part VIII, line 2(c)	\$1.54M	Provides a listing of the 2009 compensation and benefits paid by person for the highest paid employees.
Summary of program-related investments	Page 7, Part IX-B, lines 1-3	\$10.92M	Describes the below market rate loans made to organizations.
Minimum investment return	Page 8, Part X, line 6	\$142.27M	Represents the amount that the foundation must pay out as qualifying distributions. The minimum investment return is generally five percent of the total fair market value of the foundation's non-charitable use assets.
Distributable amount	Page 8, Part XI, line 7	\$145.50M	Represents the minimum amount the foundation must distribute by the end of 2010 as qualifying distributions.
Qualifying set asides	Page 8, Part XII, line 3a	\$54.73M	As noted above, the foundation has an IRS private letter ruling which allows it to count capital challenge grants in the year awarded versus in the year paid.
Qualifying distributions	Page 8, Part XII, line 6	\$180.36M	The amount the foundation actually spent or set aside for charitable purposes for the year.
Actual distribution ratio	Page 8, part XII, line 6 divided by Page 8 Part X, line 5	6.34%	Although the return doesn't display this ratio, it can be calculated for the 2009 year. This ratio is higher than the 5.13 percent minimum distribution due to the foundation's commitment of supporting nonprofits during the economic recession in 2009.
Cumulative excess distributions	Page 9, Part XIII, line 9	\$100.31M	The amount of excess distributions that the foundation may carryover and apply towards 2010 or following years.