



The
**COMMONWEALTH
FUND**

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Affordable, quality health care. For everyone.

A Synopsis of our 2016 IRS Form 990-PF

The Commonwealth Fund files an annual IRS return (the 990-PF). The 990-PF has information on the Fund's assets, financial activities, trustees and officers, complete list of grants, and responses to a set of regulatory questions on the activities of the Fund. Some of the purposes of the form include:

1. Calculation of the excise tax
2. Calculation of the required distribution
3. Calculation of the qualifying distribution
4. Calculation of any carryover of undistributed or excess distribution of income

We provide selected information about some of these items below.

1. Calculation of the excise tax

For the fiscal year ended June 30, 2017, the Fund paid \$483,035 in excise tax. The excise tax is based on interest, dividends and realized gains (the gains are net of realized losses), less investment expenses.

The tax rate is usually 2%, but can be reduced to 1% under certain circumstances; this year's tax rate was 1% based on the relatively high level of qualifying distribution.

2. Calculation of the required distribution

The Fund is required to distribute 5% of the average non-charitable use assets. In the Fund's case this is the investment portfolio. For the year ended June 30, 2017 the fund was required to distribute \$35,086,908. On the return this is called the "Distributable Amount."

3. Calculation of the qualifying distribution

We were required to distribute \$35,086,908 – the next section on the form details what we did distribute. For the year ending June 30, 2017 we actually distributed \$35,361,299. This is modestly more than what we were required to distribute, but essentially in line. Having a qualifying distribution more or less than the required distribution is not unusual – it would be a rare occurrence when an organization

distributes exactly what they are required to. The qualifying distribution is based on the cash basis, whereas our financial statements are prepared on the accrual basis.

In years when the market is moving up, we will generally fall short of the required distribution since our budget (and subsequent spending) was based on a lower average value for the non-charitable use assets. Likewise, when the market is in decline we will usually have a qualifying distribution that is greater than the required amount since our budget was based on a higher value of the non-charitable use assets.

4. Carryover of undistributed income

Based on the difference between the required and the actual distribution noted above the Fund reduced the carryover by \$274,391 for the year and ended the year with a carryover of undistributed income of \$10,575,021. The actual distribution in the 2017/2018 fiscal year will be used to offset this carryover.

Note on Administrative Expenses:

The 990-PF aggregates program and administrative expenses and reports them as “operating and administrative expenses.” For most private foundations, the differentiation between program expenses and administrative expenses is not meaningful. As a value-added foundation our program officers work closely with grantees, as well as perform in-house research. We also have an extensive communications department that disseminates the results of the research. For the Fund, the differentiation is significant.

To better explain the components of “Total Operating and Administrative Expenses” we attach a schedule that separates program expenses from administrative expenses. For the year ended June 30, 2016 the amounts were:

| | |
|---|---------------|
| Program expenses | \$ 11,391,091 |
| Administrative expenses | 1,349,990 |
| Taxes (State Registration) | <u>1,500</u> |
| Total operating and administrative expenses | \$ 12,742,581 |

Summary Metrics

| | | |
|---|----------------|-------------------------------------|
| Required distribution (distributable amount) | \$35,086,908 | (Page 8, Part XI, Line 7) |
| Qualifying distribution (actual amount distributed) | \$35,361,299 | (Page 8, Part XII, Line 4) |
| Amount required to qualify for the 1% tax rate | \$33,248,250 | (Page 3, Part V, Line 7) |
| Program expenses | \$11,391,091 | (Schedule, Part I, Line 23, Col d) |
| Administrative expenses | 1,349,990 | (Schedule, Part I, Line 23, Col d) |
| Taxes (State Registration) | 1,500 | (Page 1, Part I, Line 18, Col d) |
| Grant expenditures | 21,853,839 | (Page 1, Part I, Line 25, Col d) |
| Purchase of fixed assets | <u>764,879</u> | (Page 8, Part XII, Line 2) |
| Qualifying distribution | \$35,361,299 | (Page 8, Part XII, Line 4) |
| Carryover of undistributed income | \$10,575,021 | (Page 9, Part XIII, Line 6f, Col d) |
| Distribution ratio | 4.91% | (35,361,299 / 719,184,164) |
| Excise tax paid | \$ 483,035 | (Page 4, Part VI, Line 5) |