January 2019

## Private Foundations Bulletin

# Form 990-PF: Avoiding Some Common Pitfalls

As we begin a new year, the focus of many private foundation managers will now shift from day-to-day operations and bookkeeping to the preparation of the foundation's publicly disclosed Form 990-PF, *Return of Private Foundation*.

During the past few years, the private foundation arena has gained additional scrutiny from the public due to high profile cases being published in the media. This additional spotlight has made any public disclosures filed by a private foundation that much more important. The most commonly used and highly scrutinized data source in which valuable information about an organization can be accessed is the Form 990-PF. The growth of electronic access to this document, through such sites as *GuideStar* and the IRS *Tax Exempt Organization Search*, has highlighted the importance of an appropriately prepared Form 990-PF as it is a window into the operations of a foundation.

We have compiled the following list of the most commonly seen errors and omissions that we've encountered through our Firm's private foundation practice. This list can serve as a checklist for your foundation in both preparing and reviewing your return.

### 990-PF, Page 1

**Part J, Accounting Method**: Most small foundations use the cash basis of accounting. As a result, the box for the "cash basis" should be checked. Therefore, no accounts receivable, prepaid expenses, buildings and equipment, accounts payable, or any other non-cash transactions should be listed on Page 2 (Balance Sheets). If any of these types of transactions exist, then the accounting basis should be checked "Accrual" or "Other." If "Other" box is checked, "modified cash" or another method should be specified.

**Part I, Line 2, Box**: Foundations that are not required to attach Schedule B (Schedule of Contributions) must check this box. Leaving this box blank could result in the filing being returned and deemed incomplete.

**Part I, Column (a), Revenue and Expenses per Books:** This column should conform to the financial statements prepared for the foundation.

**Part I, Column (b), Net Investment Income:** This column should show expenses only if they are incurred in managing the foundation's investments.

**Part I, Column (c), Adjusted Net Income:** This column should be left blank unless a foundation is an operating foundation or a non-operating foundation that has income from charitable activities.

**Part I, Analysis of Revenue and Expenses**: In accordance with IRS instructions, any in-kind or pro-bono goods or services received by a foundation should not be recorded as revenue or expenses in Part I. Although these amounts may be recorded on the foundation's financial statements, they are not to be included on the Form 990-PF.

**Part I, Line 6a, Net Gain or (Loss) from Sale of Assets:** Foundations sometimes fail to identify and breakout the long-term capital gain and short-term capital gain dividends received during the year. All capital gain dividends should be reported separately from interest and dividend income reported on Line 4 and net realized gain/loss reported on Line 6a. This breakout could benefit the foundation if applied against its realized loss and could reduce the tax on these dividends.

**Part I, Line 6b, Gross Sales Price for All Assets on Line 6a**: Investment assets sold, other than those from a foundation's investment portfolio, should be reflected on this line. We find this is often left blank.

**Part I, Line 15, Pension Plans, Employee Benefits:** The foundation's share of payroll taxes reported (Social Security, Medicare, State Unemployment, etc.) should be recorded on Line 15, **not** on Line 18, Taxes.

**Part I, Column (d), Disbursements for Charitable Purposes (cash basis only):** Some foundations do not properly allocate all charitable expenditures incurred during the year to Column (d), such as legal fees incurred for grant research or other non-investment related foundation expenses.

### 990-PF, Page 2

**Part II, Lines 10a, 10b, and 10c, Investments:** Some foundations are missing the IRS required details for their investments held (i.e., shares, description, book value and market value).

### 990-PF, Page 3

**Part IV, Capital Gains and Losses for Tax and Investment Income, Column (a):** Some foundations include the detail of publicly-traded securities; according to the IRS instructions; this information is **not** required.

**Part III, Analysis of Changes in Net Assets or Fund Balances, Lines 3 and 5:** Unrealized gains and losses should be disclosed here for accrual or modified cash basis organizations. Miscellaneous balancing adjustments should not be included here.

**Part IV, Capital Gains and Losses for Tax and Investment Income, Column (b):** The foundation must indicate whether each security sold was purchased or donated. This is often left blank.

### 990-PF, Page 4

**Part VII-A, Statements Regarding Activities, Line 3, Changes Not Previously Reported to the IRS:** If a foundation makes any amendments to its governing instruments, such as its articles of incorporation or its bylaws, that have not previously been reported to the IRS, a "conformed" copy of any changes must be attached to the 990-PF tax return in the year of the change. This disclosure is often overlooked and is frequently not attached to the return.

### 990-PF, Page 5

**Part VII-B, Statements Regarding Activities for Which Form 4720 May Be Required, Line 1a (4):** Many foundations do not check the self-dealing question "Yes" or "No" [as applicable] with respect to compensation or reimbursement of expenses.

### 990-PF, Page 6

**Part VII-B, Statements Regarding Activities for Which Form 4720 May Be Required, Line 5a:** Some grant payments other than to public charities or to certain foreign organizations may require further disclosure, such as expenditure responsibility statements. Often we find these disclosures missing.

**Part VIII, Information about Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors, Line 1:** When listing the addresses, do not use home addresses or other personal contact information. The Internal Revenue Service accepts a preferred address, such as the foundation's business address or a P.O. Box.

**Part VIII, Information about Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors:** In addition to listing the compensation of the five highest-paid employees, a foundation must also list the total number of other employees paid over $50,000. Often we find this disclosure missing.

### 990-PF, Page 7

**Part VIII, Information about Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors, Line 3:** The foundation's investment advisors who are compensated over $50,000 per annum must be included among the five highest-paid independent professional services contractors, as applicable.

### 990-PF, Page 8

**Part XI, Line 4, Recoveries of Amounts Treated as Qualifying Distributions:** When amounts paid out by a private foundation that count as qualifying distributions in meeting the 5-percent minimum distribution requirement are paid back or returned to the foundation (recoveries of part or all of a grant previously made or program-related investment), they must be added back to the distributable amount. These amounts are to be entered on Part XI, line 4.

**Part XII, Qualifying Distributions, Line 2:** If furniture, fixtures and equipment are recorded on the balance sheet, be sure to include amounts paid to acquire charitable use assets here.

### 990-PF, Page 11

**Part XV, Grants and Contributions Paid During the Year or Approved for Future Payment, Lines 3a and 3b:** Some foundations fail to provide a complete address for a grantee and/or fail to include the grant recipient codes required by the IRS or to describe the purpose of the grant.

### Contact Us

We welcome the opportunity to speak with you about any questions you may have regarding this newsletter or any other subject related to accounting, audit, tax or advisory matters relative to private foundations. Please contact us:

**Thomas F. Blaney**, CPA, CFE
Partner, Co-Director of Foundation Services
tblaney@pkfod.com

**Christopher D. Petermann**, CPA
Partner, Co-Director of Foundation Services
cpetermann@pkfod.com

www.pkfod.com

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