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O'CONNOR DAVIES

AUDIT | TAX | CONSULTING

Private Foundation IRS Requirements

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March 18, 2014

History of Form and Excise Tax

- 1969
- 4%
- 2%
- 2% or 1%
- Use it or lose it

Five Percent Rule

- What 5% consists of
- How to calculate the base of 5%
- Distribution Timing of the 5%
- Failure to distribute

| Part I Analysis of Revenue and Expenses (The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a).) | | (a) Revenue and expenses per books | (b) Net investment income | (c) Adjusted net income | (d) Disbursements for charitable purposes (cash basis only) |
|--|---|------------------------------------|---------------------------|-------------------------|---|
| Revenue | 1 Contributions, gifts, grants, etc., received | 4,405,000. | | N/A | |
| | 2 Check <input type="checkbox"/> if the foundation is not required to attach Sch. B | | | | |
| | 3 Interest on savings and temporary cash investments | 330,000. | 330,000. | | |
| | 4 Dividends and interest from securities | 82,000. | 82,000. | | |
| | 5a Gross rents | | | | |
| | b Net rental income or (loss) | | | | |
| | 6a Net gain or (loss) from sale of assets not on line 10 | 2,270,000. | | | |
| | b Gross sales price for all assets on line 6a | 2,300,000. | | | |
| | 7 Capital gain net income (from Part IV, line 2) | | 2,270,000. | | |
| | 8 Net short-term capital gain | | | | |
| | 9 Income modifications | | | | |
| | 10a Gross sales less returns and allowances | | | | |
| b Less: Cost of goods sold | | | | | |
| c Gross profit or (loss) | | | | | |
| 11 Other income | | | | | |
| 12 Total. Add lines 1 through 11 | 7,087,000. | 2,682,000. | | | |
| Operating and Administrative Expenses | 13 Compensation of officers, directors, trustees, etc. | 80,000. | 5,000. | | 75,000. |
| | 14 Other employee salaries and wages | 10,000. | 0. | | 10,000. |
| | 15 Pension plans, employee benefits | 18,000. | 1,000. | | 17,000. |
| | 16a Legal fees STMT 1 | 1,000. | 0. | | 1,000. |
| | b Accounting fees STMT 2 | 2,000. | 0. | | 2,000. |
| | c Other professional fees STMT 3 | 70,000. | 70,000. | | 0. |
| | 17 Interest | | | | |
| | 18 Taxes STMT 4 | 16,000. | 11,000. | | 0. |
| | 19 Depreciation and depletion | | | | |
| | 20 Occupancy | 5,000. | 0. | | 5,000. |
| | 21 Travel, conferences, and meetings | 3,000. | 0. | | 3,000. |
| | 22 Printing and publications | 1,000. | 0. | | 1,000. |
| | 23 Other expenses STMT 5 | 5,000. | 0. | | 5,000. |
| | 24 Total operating and administrative expenses. Add lines 13 through 23 | 211,000. | 87,000. | | 119,000. |
| | 25 Contributions, gifts, grants paid | 990,000. | | | 990,000. |
| 26 Total expenses and disbursements. Add lines 24 and 25 | 1,201,000. | 87,000. | | 1,109,000. | |
| 27 Subtract line 26 from line 12: | | | | | |
| a Excess of revenue over expenses and disbursements | 5,886,000. | | | | |
| b Net investment income (if negative, enter -0-) | | 2,595,000. | | | |
| c Adjusted net income (if negative, enter -0-) | | | N/A | | |

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period? ☐ Yes ☒ No

If "Yes," the foundation does not qualify under section 4940(e). Do not complete this part.

1 Enter the appropriate amount in each column for each year; see the instructions before making any entries.

| (a) Base period years Calendar year (or tax year beginning in) | (b) Adjusted qualifying distributions | (c) Net value of noncharitable-use assets | (d) Distribution ratio (col. (b) divided by col. (c)) |
|--|--|--|---|
| 2012 | 1,109,000. | 7,204,251. | .153937 |
| 2011 | 745,000. | 5,234,251. | .142332 |
| 2010 | 500,000. | 1,000,000. | .500000 |
| 2009 | 300,000. | 3,000,000. | .100000 |
| 2008 | 100,000. | 2,000,000. | .050000 |

2 Total of line 1, column (d) 2 .946269

3 Average distribution ratio for the 5-year base period - divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years 3 .189254

4 Enter the net value of noncharitable-use assets for 2013 from Part X, line 5 4 9,792,831.

5 Multiply line 4 by line 3 5 1,853,332.

6 Enter 1% of net investment income (1% of Part I, line 27b) 6 25,950.

7 Add lines 5 and 6 7 1,879,282.

8 Enter qualifying distributions from Part XII, line 4 8 1,109,000.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions.

Part X

Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see instructions.)

| | | | |
|----------|---|-----------|------------|
| 1 | Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes: | | |
| a | Average monthly fair market value of securities | 1a | 9,826,960. |
| b | Average of monthly cash balances | 1b | 115,000. |
| c | Fair market value of all other assets | 1c | |
| d | Total (add lines 1a, b, and c) | 1d | 9,941,960. |
| e | Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation) | 1e | 0. |
| 2 | Acquisition indebtedness applicable to line 1 assets | 2 | 0. |
| 3 | Subtract line 2 from line 1d | 3 | 9,941,960. |
| 4 | Cash deemed held for charitable activities. Enter 1 1/2% of line 3 (for greater amount, see instructions) | 4 | 149,129. |
| 5 | Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4 | 5 | 9,792,831. |
| 6 | Minimum investment return. Enter 5% of line 5 | 6 | 489,642. |

Part XI

Distributable Amount (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here ☐ and do not complete this part.)

| | | | |
|-----------|---|-----------|----------|
| 1 | Minimum investment return from Part X, line 6 | 1 | 489,642. |
| 2a | Tax on investment income for 2013 from Part VI, line 5 | 2a | 51,900. |
| b | Income tax for 2013. (This does not include the tax from Part VI.) | 2b | |
| c | Add lines 2a and 2b | 2c | 51,900. |
| 3 | Distributable amount before adjustments. Subtract line 2c from line 1 | 3 | 437,742. |
| 4 | Recoveries of amounts treated as qualifying distributions | 4 | 0. |
| 5 | Add lines 3 and 4 | 5 | 437,742. |
| 6 | Deduction from distributable amount (see instructions) | 6 | 0. |
| 7 | Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1 | 7 | 437,742. |

Part XII

Qualifying Distributions (see instructions)

| | | | |
|----------|---|-----------|------------|
| 1 | Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes: | | |
| a | Expenses, contributions, gifts, etc. - total from Part I, column (d), line 26 | 1a | 1,109,000. |
| b | Program-related investments - total from Part IX-B | 1b | 0. |
| 2 | Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes | 2 | |
| 3 | Amounts set aside for specific charitable projects that satisfy the: | | |
| a | Suitability test (prior IRS approval required) | 3a | |
| b | Cash distribution test (attach the required schedule) | 3b | |
| 4 | Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4 | 4 | 1,109,000. |
| 5 | Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b | 5 | 0. |
| 6 | Adjusted qualifying distributions. Subtract line 5 from line 4 | 6 | 1,109,000. |

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.

Part XIII Undistributed Income (see instructions)

| | (a) Corpus | (b) Years prior to 2012 | (c) 2012 | (d) 2013 |
|---|---------------|----------------------------|-------------|-------------|
| 1 Distributable amount for 2013 from Part XI, line 7 | | | | 437,742. |
| 2 Undistributed income, if any, as of the end of 2013: | | | | |
| a Enter amount for 2012 only | | | 0. | |
| b Total for prior years: | | 0. | | |
| 3 Excess distributions carryover, if any, to 2013: | | | | |
| a From 2008 | 16,000. | | | |
| b From 2009 | 15,000. | | | |
| c From 2010 | 2,000. | | | |
| d From 2011 | 525,287. | | | |
| e From 2012 | 800,687. | | | |
| f Total of lines 3a through e | 1,358,974. | | | |
| 4 Qualifying distributions for 2013 from Part XII, line 4: ▶ \$ | 1,109,000. | | | |
| a Applied to 2012, but not more than line 2a | | | 0. | |
| b Applied to undistributed income of prior years (Election required - see instructions) | | 0. | | |
| c Treated as distributions out of corpus (Election required - see instructions) | 0. | | | |
| d Applied to 2013 distributable amount | | | | 437,742. |
| e Remaining amount distributed out of corpus | 671,258. | | | |
| 5 Excess distributions carryover applied to 2013 (If an amount appears in column (d), the same amount must be shown in column (e).) | 0. | | | 0. |
| 6 Enter the net total of each column as indicated below: | | | | |
| a Corpus. Add lines 3f, 4c, and 4e. Subtract line 5 | 2,030,232. | | | |
| b Prior years' undistributed income. Subtract line 4b from line 2b | | 0. | | |
| c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed | | 0. | | |
| d Subtract line 6c from line 6b. Taxable amount - see instructions | | 0. | | |
| e Undistributed income for 2012. Subtract line 4a from line 2a. Taxable amount - see instr. | | | 0. | |
| f Undistributed income for 2013. Subtract lines 4d and 5 from line 1. This amount must be distributed in 2014 | | | | 0. |
| 7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3) | 0. | | | |
| 8 Excess distributions carryover from 2008 not applied on line 5 or line 7 | 16,000. | | | |
| 9 Excess distributions carryover to 2014. Subtract lines 7 and 8 from line 6a | 2,014,232. | | | |
| 10 Analysis of line 9: | | | | |
| a Excess from 2009 | 15,000. | | | |
| b Excess from 2010 | 2,000. | | | |
| c Excess from 2011 | 525,287. | | | |
| d Excess from 2012 | 800,687. | | | |
| e Excess from 2013 | 671,258. | | | |

Key Items

- Excise Tax Calculation and Planning
- Self Dealing
- Page 1 of 990-PF

| country | | | |
|--|---|-----|----|
| Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required | | | |
| File Form 4720 if any item is checked in the "Yes" column, unless an exception applies. | | Yes | No |
| 1a During the year did the foundation (either directly or indirectly): | | | |
| (1) Engage in the sale or exchange, or leasing of property with a disqualified person? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| (2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| (3) Furnish goods, services, or facilities to (or accept them from) a disqualified person? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | | |
| (4) Pay compensation to, or pay or reimburse the expenses of, a disqualified person? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | | |
| (5) Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| (6) Agree to pay money or property to a government official? (Exception. Check "No" if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.) | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| b If any answer is "Yes" to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see instructions)? | | 1b | X |
| Organizations relying on a current notice regarding disaster assistance check here | <input type="checkbox"/> | | |
| c Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2013? | | 1c | X |
| 2 Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5)): | | | |
| a At the end of tax year 2013, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2013? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| If "Yes," list the years | | | |
| b Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer "No" and attach statement - see instructions.) | N/A | 2b | |
| c If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here. | | | |
| 3a Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | |
| b If "Yes," did it have excess business holdings in 2013 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969; (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest; or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2013.) | N/A | 3b | |
| 4a Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes? | | 4a | X |
| b Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2013? | | 4b | X |

Form 990-PF (2013)

Form 990-PF (2013)

CACTUS LEAGUE FOUNDATION

55-8975798

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Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required (continued)

5a During the year did the foundation pay or incur any amount to:

- (1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))? ☐ Yes ☒ No
- (2) Influence the outcome of any specific public election (see section 4955); or to carry on, directly or indirectly, any voter registration drive? ☐ Yes ☒ No
- (3) Provide a grant to an individual for travel, study, or other similar purposes? ☐ Yes ☒ No
- (4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)? ☐ Yes ☒ No
- (5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals? ☐ Yes ☒ No

b If any answer is "Yes" to 5a(1)-(5), did **any** of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)? **N/A**

Organizations relying on a current notice regarding disaster assistance check here ☐

c If the answer is "Yes" to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant? **N/A** ☐ Yes ☐ No

If "Yes," attach the statement required by Regulations section 53.4945-5(d).

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? ☐ Yes ☒ No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract? **6b** ☐ Yes ☒ No

If "Yes" to 6b, file Form 8870.

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction? ☐ Yes ☒ No

b If "Yes," did the foundation receive any proceeds or have any net income attributable to the transaction? **N/A** **7b**

Form **990-PF**

Department of the Treasury
Internal Revenue Service

Return of Private Foundation

or Section 4947(a)(1) Trust Treated as Private Foundation

▶ Do not enter Social Security numbers on this form as it may be made public.

▶ Information about Form 990-PF and its separate instructions is at www.irs.gov/form990pf.

OMB No. 1545-0052

2013

Open to Public Inspection

For calendar year 2013 or tax year beginning

, and ending

| | | |
|---|--|--|
| Name of foundation CACTUS LEAGUE FOUNDATION | | A Employer identification number 55-8975798 |
| Number and street (or P.O. box number if mail is not delivered to street address) 4835 E. CACTUS RD. | Room/suite | B Telephone number 480-999-9999 |
| City or town, state or province, country, and ZIP or foreign postal code SCOTTSDALE, AZ 85254 | | C If exemption application is pending, check here <input type="checkbox"/> |
| G Check all that apply: <input type="checkbox"/> Initial return <input type="checkbox"/> Initial return of a former public charity <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Address change <input type="checkbox"/> Name change | | D 1. Foreign organizations, check here <input type="checkbox"/> 2. Foreign organizations meeting the 85% test, check here and attach computation <input type="checkbox"/> |
| H Check type of organization: <input checked="" type="checkbox"/> Section 501(c)(3) exempt private foundation <input type="checkbox"/> Section 4947(a)(1) nonexempt charitable trust <input type="checkbox"/> Other taxable private foundation | | E If private foundation status was terminated under section 507(b)(1)(A), check here <input type="checkbox"/> |
| I Fair market value of all assets at end of year (from Part II, col. (c), line 16) ▶ \$ 16,200,000. | J Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input checked="" type="checkbox"/> Other (specify) MODIFIED CASH (Part I, column (d) must be on cash basis.) | |
| | | F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here <input type="checkbox"/> |

Future Changes

- Incorporation of 990 Governance Changes and format
- Flat Tax

Common Mistakes

- Bylaws
- Credit Cards
- Tax Period
- Basis of Accounting
- Timing of 5%

Common Mistakes (continued)

- First Year Reduction of Excise Tax
- Capital Gains
- Foreign Securities
- UBIT

Overview of O'Connor Davies

- Founded in 1891
- Ranked within the Top 40 Firms in the United States according to *Accounting Today*
- Seven offices with 500 people, including 84 partners
- Member of PKF network – national/international
- Servicing over 200 Private Foundations
- Servicing over 1500 Not-for-Profit organizations