



# Instructions for Form 990-PF

## Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation

Section references are to the Internal Revenue Code unless otherwise noted.

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use EFTPS on or after July 1, 1997, see General Instruction P on page 5.

- Part VII-A on Form 990-PF has a new question (1e) and a revised question (1d) dealing with the reimbursement and imposition of tax on political expenditures.
- For tax years beginning after December 31, 1997, C corporations may receive an increased charitable deduction for certain gifts of computer technology or equipment to a private foundation if, within 30 days from the receipt of the gift, the foundation turns it over to an eligible donee and notifies the donor of the gift. See section 170(e)(6) for more information.

### How To Get Forms and Publications

**Personal computer.** Visit the IRS's Internet Web Site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov) to get:

- Forms and instructions
  - Publications
  - IRS press releases and fact sheets.
- You can also reach us using:
- Telnet at [iris.irs.ustreas.gov](http://iris.irs.ustreas.gov)
  - File Transfer Protocol at [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)
  - Direct Dial (by modem)—Dial direct to the Internal Revenue Information Services (IRIS) by calling **703-321-8020** using your modem. IRIS is an on-line information service on FedWorld.

**CD-ROM.** A CD-ROM containing over 2,000 tax products (including many prior year forms) can be purchased from the Government Printing Office (GPO). To order the CD-ROM, call the Superintendent of Documents at **202-512-1800**, or go through GPO's Internet Web Site ([www.access.gpo.gov/su\\_docs](http://www.access.gpo.gov/su_docs)).

**By phone and in person.** To order forms and publications, call **1-800-TAX-FORM (1-800-829-3676)** between 7:30 a.m. and 5:30 p.m. on weekdays. You can also get most forms and publications at your local IRS office.

## General Instructions

**Purpose of form.** Form 990-PF is used by private foundations and by section 4947(a)(1) nonexempt charitable trusts that are treated as private foundations. These organizations use this form to figure the tax on net investment income and to report charitable distributions and activities. The form also serves as a substitute for the section 4947(a)(1) nonexempt charitable trust's income tax return, **Form 1041**, U.S. Income Tax Return for Estates and Trusts, when the trust has no taxable income.

### A. Who Must File

Form 990-PF is an annual information return that must be filed by:

- Exempt private foundations (section 6033(a), (b), and (c)).
- Taxable private foundations (section 6033(d)).
- Organizations that agree to private foundation status and whose applications for exempt status are pending on the due date for filing Form 990-PF.
- Organizations that made an election under section 41(e)(6).
- Organizations that are making a section 507 termination.
- Section 4947(a)(1) nonexempt charitable trusts that **are** treated as private foundations (section 6033(d)).

**Other section 4947(a)(1) charitable trusts.** Section 4947(a)(1) nonexempt charitable trusts that **are not** treated as private foundations do not file Form 990-PF. However, they may need to file **Form 990**, Return of Organization Exempt From Income Tax, or **Form 990-EZ**, Short Form Return of Organization Exempt From Income Tax. With either of these forms, the trust must also file **Schedule A (Form 990)**, Organization Exempt Under Section 501(c)(3) (Except Private Foundation), and Section 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust Supplementary Information. (See Form 990 or Form 990-EZ instructions.)

### B. Which Parts To Complete

The parts of the form listed below **do not** apply to all filers. If an entire part or a major portion of a part does not apply, enter "N/A" where appropriate.

- **Part I, column (c)**, applies only to private operating foundations and to nonoperating private foundations that have income from charitable activities.
- **Part II, column (c)**, with the exception of line 16, applies only to organizations having at least \$5,000 in assets per books at some time during the year. Line 16, column (c), applies to all filers.

- **Part IV** does not apply to foreign organizations.
- **Parts V and VI** do not apply to organizations making an election under section 41(e).
- **Part X** does not apply to foreign foundations that check box D2 on page 1 of Form 990-PF unless they claim status as a private operating foundation.
- **Parts XI and XIII** do not apply to foreign foundations that check box D2 on page 1 of Form 990-PF. However, check the box at the top of Part XI. Part XI does not apply to private operating foundations. Also, if the organization is a private operating foundation for any of the years shown in Part XIII, do not complete the portions that apply to those years.
- **Part XIV** applies **only** to private operating foundations.
- **Part XV** applies only to organizations having assets of \$5,000 or more during the year. This part does not apply to certain foreign organizations.

### C. Definitions

• **A private foundation** is a domestic or foreign organization exempt from income tax under section 501(a); described in section 501(c)(3); and is **other than** an organization described in sections 509(a)(1) through (4).

In general, churches, hospitals, schools, and broadly publicly supported organizations are excluded from private foundation status by these sections. These organizations may be required to file Form 990 (or Form 990-EZ) instead of Form 990-PF.

- **A nonexempt charitable trust** treated as a private foundation is a trust that is not exempt from tax under section 501(a) and all of the unexpired interests of which are devoted to religious, charitable, or other purposes described in section 170(c)(2)(B), and for which a deduction was allowed under a section of the Code listed in section 4947(a)(1).
- **A taxable private foundation** is an organization that is no longer exempt under section 501(a) as an organization described in section 501(c)(3). Though it may operate as a taxable entity, it will continue to be treated as a private foundation until that status is terminated under section 507.
- **A private operating foundation** is an organization that is described under section 4942(j)(3) or (5). It means any private foundation that spends at least 85% of the smaller of its adjusted net income (figured in Part I) or its minimum investment return (figured in Part X) directly for the active conduct of the exempt purpose or functions for which the foundation is organized and operated and that also meets the assets test, the endowment test, or the support test (discussed in Part XIV).

• **A nonoperating private foundation** is a private foundation that is not a private operating foundation.

• **A foundation manager** is an officer, director, or trustee of a foundation, or an individual who has powers similar to those of officers, directors, or trustees. In the case of any act or failure to act, the term "foundation manager" may also include employees of the foundation who have the authority to act.

• **A disqualified person** is:

1. A substantial contributor (see instructions for Part VII-A, line 10, on page 16);
2. A foundation manager;
3. A person who owns more than 20% of a corporation, partnership, trust, or unincorporated enterprise that is itself a substantial contributor;
4. A family member of an individual described in 1, 2, or 3 above; or
5. A corporation, partnership, trust, or estate in which persons described in 1, 2, 3, or 4 above own a total beneficial interest of more than 35%.

6. For purposes of section 4941 (self-dealing), a disqualified person also includes certain government officials. (See section 4946(c) and the related regulations.)

7. For purposes of section 4943 (excess business holdings), a disqualified person also includes:

- a. A private foundation that is effectively controlled (directly or indirectly) by the same persons who control the private foundation in question, or
- b. A private foundation to which substantially all of the contributions were made (directly or indirectly) by one or more of the persons described in 1, 2, and 3 above, or members of their families, within the meaning of section 4946(d).

• **An organization is controlled** by a foundation or by one or more disqualified persons with respect to the foundation if any of these persons may, by combining their votes or positions of authority, require the organization to make an expenditure or prevent the organization from making an expenditure, regardless of the method of control. "Control" is determined without regard to the conditions imposed by a foundation on the manner in which the contribution must be used.

### D. Other Forms You May Need To File

**Form W-2**, Wage and Tax Statement.

**Form W-3**, Transmittal of Wage and Tax Statements.

**Form 941**, Employer's Quarterly Federal Tax Return. Used to report social security, Medicare, and income taxes withheld by an employer and social security and Medicare taxes paid by an employer.

If income, social security, and Medicare taxes that must be withheld are not withheld or are not paid to the IRS, a Trust Fund Recovery Penalty may apply. The penalty is 100% of such unpaid taxes.

This penalty may be imposed on all persons (including volunteers, see below) whom the IRS determines to be responsible for collecting, accounting for, and paying over these taxes, and who willfully did not do so.

This penalty does not apply to any volunteer, unpaid member of any board of trustees or directors of a tax-exempt organization, if this member:

1. Is solely serving in an honorary capacity,
2. Does not participate in the day-to-day or financial activities of the organization, and
3. Does not have actual knowledge of the failure to collect, account for, and pay over these taxes.

However, this exception does not apply if it results in no person being liable for the penalty.

**Form 990-T**, Exempt Organization Business Income Tax Return. Every organization exempt from income tax under section 501(a) that has total gross income of \$1,000 or more from all trades or businesses that are unrelated to the organization's exempt purpose must file a return on Form 990-T.

**Form 990-W**, Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations (and on Investment Income for Private Foundations).

**Form 1041**, U.S. Income Tax Return for Estates and Trusts. Required of section 4947(a)(1) nonexempt charitable trusts that also file Form 990-PF. However, if the trust does not have any taxable income under the income tax provisions (subtitle A of the Code), it may use the filing of Form 990-PF to satisfy its Form 1041 filing requirement under section 6012. If this condition is met, check the box for question 13, Part VII-A, of Form 990-PF and do not file Form 1041.

**Form 1041-ES**, Estimated Income Tax for Estates and Trusts.

**Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.

**Forms 1099-INT, MISC, OID, and R**, Information returns for reporting certain interest; miscellaneous income, medical and health care payments, and nonemployee compensation; original issue discount; and distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.

**Form 1120**, U.S. Corporation Income Tax Return. Filed by nonexempt taxable private foundations that have taxable income under the income tax provisions (subtitle A of the Code). The Form 990-PF

annual information return is also filed by these taxable foundations.

**Form 1120-POL**, U.S. Income Tax Return for Certain Political Organizations.

Section 501(c) organizations must file Form 1120-POL if their political expenditures and their net investment income both exceed \$100 for the year.

**Form 1128**, Application To Adopt, Change, or Retain a Tax Year.

**Form 2758**, Application for Extension of Time To File Certain Excise, Income, Information, and Other Returns.

**Form 2220**, Underpayment of Estimated Tax by Corporations, is used by corporations and trusts filing Form 990-PF to see if the foundation owes a penalty and to figure the amount of the penalty. Generally, the foundation is not required to file this form because the IRS can figure the amount of any penalty and bill the foundation for it. However, complete and attach Form 2220 even if the foundation does not owe the penalty if:

- The annualized income or the adjusted seasonal installment method is used, or
- The foundation is a "large organization," (see General Instruction O) computing its first required installment based on the prior year's tax.

If Form 2220 is attached, check the box on line 8, Part VI, on page 4 of Form 990-PF and enter the amount of any penalty on this line.

**Form 4506-A**, Request for Public Inspection or Copy of Exempt Organization Tax Form.

**Form 4720**, Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code, is primarily used to determine the excise taxes imposed on: acts of self-dealing between private foundations and disqualified persons; failure to distribute income; excess business holdings; investments that jeopardize the foundation's charitable purposes; and making political or other noncharitable expenditures. Certain excise taxes and penalties also apply to foundation managers, substantial contributors, and certain related persons and are reported on this form.

**Form 5500 or 5500-C/R**, employers who maintain pension, profit-sharing, or other funded deferred compensation plans are generally required to file one of the 5500 series of forms shown below. This requirement applies whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year.

The forms required to be filed are:

**Form 5500**, Annual Return/Report of Employee Benefit Plan (With 100 or more participants).

**Form 5500-C/R**, Return/Report of Employee Benefit Plan (With fewer than 100 participants).

**Form 8109**, Federal Tax Deposit Coupon.

**Form 8282**, Donee Information Return. Required of the donee of "charitable deduction property" that sells, exchanges, or otherwise disposes of the property within 2 years after the date it received the property.

Also required of any successor donee that disposes of charitable deduction property within 2 years after the date that the donor gave the property to the original donee. (It does not matter who gave the property to the successor donee. It may have been the original donee or another successor donee.) For successor donees, the form must be filed only for any property that was transferred by the original donee after July 5, 1988.

**Form 8275**, taxpayers and tax return preparers should attach **Form 8275**, Disclosure Statement, to Form 990-PF to disclose items or positions (except those contrary to a regulation—see **Form 8275-R** below) that are not otherwise adequately disclosed on the tax return. The disclosure is made to avoid parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.

**Form 8275-R**, use **Form 8275-R**, Regulation Disclosure Statement, to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.

**Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Used to report cash amounts in excess of \$10,000 that were received in a single transaction (or in two or more related transactions) in the course of a trade or business (as defined in section 162).

**Form 8718**, User Fee for Exempt Organization Determination Letter Request. Used by a private foundation that has completed a section 507 termination and seeks a determination letter that it is now a public charity.

**Form 8822**, Change of Address.

## E. Useful Publications

In addition to the publications listed throughout these instructions, you may wish to get:

**Publication 525**, Taxable and Nontaxable Income.

**Publication 578**, Tax Information for Private Foundations and Foundation Managers.

**Publication 583**, Starting a Business and Keeping Records.

**Publication 598**, Tax on Unrelated Business Income of Exempt Organizations.

**Publication 910**, Guide to Free Tax Services.

**Publication 1391**, Deductibility of Payments Made to Charities Conducting Fund-Raising Events.

Publications and forms are available at no charge through IRS offices or by calling **1-800-TAX-FORM (1-800-829-3676)**.

## F. Use of Form 990-PF To Satisfy State Reporting Requirements

Some states and local government units will accept a copy of Form 990-PF and required attachments in place of all or part of their own financial report forms.

If the organization plans to use Form 990-PF to satisfy state or local filing requirements, such as those from state charitable solicitation acts, note the following:

### Determine state filing requirements.

Consult the appropriate officials of all states and other jurisdictions in which the organization does business to determine their specific filing requirements. "Doing business" in a jurisdiction may include any of the following:

- Soliciting contributions or grants by mail or otherwise from individuals, businesses, or other charitable organizations,
- Conducting programs,
- Having employees within that jurisdiction, or
- Maintaining a checking account or owning or renting property there.

**Monetary tests may differ.** Some or all of the dollar limitations that apply to Form 990-PF when filed with the IRS may not apply when using Form 990-PF instead of state or local report forms. IRS dollar limitations that may not meet some state requirements are the \$5,000 total assets minimum that requires completion of Part II, column (c), and Part XV; and the \$50,000 minimum for listing the highest paid employees and for listing professional fees in Part VIII.

**Additional information may be required.** State and local filing requirements may require attaching to Form 990-PF one or more of the following:

- Additional financial statements, such as a complete analysis of functional expenses or a statement of changes in net assets,
- Notes to financial statements,
- Additional financial schedules,
- A report on the financial statements by an independent accountant, and
- Answers to additional questions and other information.

Each jurisdiction may require the additional material to be presented on forms they provide. The additional

information does not have to be submitted with the Form 990-PF filed with the IRS.

If required information is not provided to a state, the organization may be asked by the state to provide it or to submit an amended return, even if the Form 990-PF is accepted by the IRS as complete.

**Amended returns.** If the organization submits supplemental information or files an amended Form 990-PF with the IRS, it must also include a copy of the information or amended return to any state with which it filed a copy of Form 990-PF.

**Method of accounting.** Many states require that all amounts be reported based on the accrual method of accounting.

**Time for filing may differ.** The time for filing Form 990-PF with the IRS may differ from the time for filing state reports.

**State registration numbers.** Enter the applicable state or local jurisdiction registration or identification number in box B (on page 1) for each jurisdiction in which the organization files Form 990-PF instead of the state or local form. When filing in several jurisdictions, prepare as many copies as needed with the state registration number omitted. Then enter the applicable registration number on the copy to be filed with each jurisdiction.

## G. Furnishing Copies of Form 990-PF to State Officials

The foundation managers must furnish a copy of the annual return Form 990-PF (and Form 4720 (if applicable)) to the attorney general of:

1. Each state required to be listed in Part VII-A, line 8a,
2. The state in which the foundation's principal office is located, and
3. The state in which the foundation was incorporated or created.

A copy of the annual return must be sent to the attorney general at the same time the annual return is filed with the IRS.

**Other requirements.** If the attorney general or other appropriate state official of any state requests a copy of the annual return, the foundation managers must give them a copy of the annual return.

**Exceptions.** These rules do not apply to any foreign foundation which, from the date of its creation, has received at least 85% of its support (excluding gross investment income) from sources outside the United States. (See Exceptions in General Instruction Q for other exceptions that affect this type of organization.)

**Coordination with state reporting requirements.** If the foundation managers submit a copy of Form 990-PF and Form 4720 (if applicable) to a state attorney general to satisfy a state reporting requirement, they do not have

to furnish a second copy to that attorney general to comply with the Internal Revenue Code requirements discussed in this section.

If there is a state reporting requirement to file a copy of Form 990-PF with a state official other than the attorney general (such as the secretary of state), then the foundation managers must also send a copy of the Form 990-PF and Form 4720 (if applicable) to the attorney general of that state.

## H. Accounting Period

1. File the 1997 return for the calendar year 1997 or fiscal year beginning in 1997. If the return is for a fiscal year, fill in the tax year space at the top of the return.

2. The return must be filed on the basis of the established annual accounting period of the organization. If the organization has no established accounting period, the return should be on the calendar-year basis.

3. For initial or final returns or a change in accounting period, the 1997 form may also be used as the return for a short period (less than 12 months) ending November 30, 1998, or earlier.

In general, to change its accounting period the organization must file Form 990-PF by the due date for the short period resulting from the change. At the top of this short period return, write, "Change of Accounting Period."

If the organization changed its accounting period within the 10-calendar-year period that includes the beginning of the short period, and it had a Form 990-PF filing requirement at any time during that 10-year period, it must also attach a Form 1128 to the short-period return. See Rev. Proc. 85-58, 1985-2 C.B. 740.

## I. Accounting Methods

Generally, you should report the financial information requested on the basis of the accounting method the foundation regularly uses to keep its books and records.

**Exception.** Complete Part I, column (d) on the cash receipts and disbursements method of accounting.

**Change required by Statement of Financial Accounting Standards (SFAS) No. 116.** Foundations that are changing their methods of accounting for Federal income tax purposes to comply with SFAS No. 116 are not required to file **Form 3115**, Application for Change in Accounting Method. Foundations may change to the methods described in SFAS No. 116 for Federal income tax purposes for any tax year beginning after December 15, 1994, by reflecting the change in the manner described in Notice 96-30, 1996-1 C.B. 378.

## J. When and Where To File

This return must be filed by the 15th day of the 5th month following the close of the foundation's accounting period. If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. If the return is filed late, see General Instruction M.

In case of a complete liquidation, dissolution, or termination, file the return by the 15th day of the 5th month following complete liquidation, dissolution, or termination.

To file the return, mail or deliver it to the:

Internal Revenue Service Center  
Ogden, UT 84201-0027

## K. Extension of Time To File

A foundation may use Form 2758 to request an extension of time to file its return.

## L. Amended Return

To change the organization's return for any year, file an amended return, including attachments, with the correct information. The amended return must provide all the information required by the form and instructions, not just the new or corrected information. Write "Amended Return" at the top of the return.

If the organization files an amended return to claim a refund of tax paid under section 4940 or 4948, it must file the amended return within 3 years after the date the original return was due or filed, or within 2 years from the date the tax was paid, whichever date is later.

**State reporting requirements.** See Amended returns under General Instruction F.

**Need a copy of an old return or form?** Use Form 4506-A to obtain a copy of a previously filed return. You can obtain blank forms for prior years by calling, 1-800-TAX-FORM (1-800-829-3676).

## M. Penalty for Failure To File Timely, Completely, or Correctly

**Against the organization.** If an organization does not file timely and completely, or does not furnish the correct information, it must pay \$20 for each day the failure continues (\$100 a day if it is a large organization), unless it can show that the failure was due to reasonable cause. Those filing late (after the due date, including extensions) must attach an explanation to the return. The maximum penalty for each return will not exceed the smaller of \$10,000 (\$50,000 for a large organization) or 5% of the

gross receipts of the organization for the year.

**Large organization.** A large organization is one that has gross receipts exceeding \$1 million for the tax year.

**Against the responsible person.** The IRS will make written demand that the delinquent return be filed or the information furnished within a reasonable time after the mailing of the notice of the demand. The person failing to comply with the demand on or before the date specified will have to pay \$10 for each day the failure continues, unless there is reasonable cause. The maximum penalty imposed on all persons for any one return will not exceed \$5,000. If more than one person is liable for any failures, all such persons are jointly and severally liable for such failures (see section 6652(c)).

To avoid filing an incomplete return or having to respond to requests for missing information, complete all applicable line items; answer "Yes," "No," or "N/A" (not applicable) to each question on the return; make an entry (including a zero when appropriate) on all total lines; and enter "None" or "N/A" if an entire part does not apply.

Because this return also satisfies the filing requirements of a tax return under section 6011 for the tax on investment income imposed by section 4940 (or 4948 if an exempt foreign organization), the penalties imposed by section 6651 for not filing a return (without reasonable cause) also apply.

There are also penalties for willful failure to file and for filing fraudulent returns and statements. See sections 7203, 7206, and 7207.

## N. Penalties for Not Paying Tax on Time

There is a penalty for not paying tax when due (section 6651). The penalty generally is  $\frac{1}{2}$  of 1% of the unpaid tax for each month or part of a month the tax remains unpaid, not to exceed 25% of the unpaid tax. If there was reasonable cause for not paying the tax on time, the penalty can be waived. However, interest is charged on any tax not paid on time, at the rate provided by section 6621.

**Estimated tax penalty.** The section 6655 penalty for failure to pay estimated tax applies to the tax on net investment income of domestic private foundations and section 4947(a)(1) nonexempt charitable trusts. The penalty also applies to any tax on unrelated business income of a private foundation. Generally, if a private foundation's tax liability is \$500 or more and it did not make the required payments on time, then it is subject to the penalty.

For more details, see the discussion of Form 2220 in General Instruction D.

## O. Figuring and Paying Estimated Tax

A domestic private foundation must make estimated tax payments for the excise tax based on investment income if it can expect its estimated tax (section 4940 tax minus allowable credits) to be \$500 or more. The number of installment payments it must make under the depository method is determined at the time during the year that it first meets this requirement. For calendar-year taxpayers, the first deposit of estimated taxes for a year generally should be made by May 15 of the year.

Although Form 990-W is used primarily to compute the installment payments of unrelated business income tax, it is also used to determine the timing and amounts of installment payments of the section 4940 tax based on investment income. Compute separately any required deposits of excise tax based on investment income and unrelated business income tax.

To figure the estimated tax, multiply the estimated investment income by the tax rate (1% or 2%, whichever applies) and enter that amount on line 9a of Form 990-W.

The Form 990-W line items and instructions for large organizations also apply to private foundations. For purposes of paying the estimated tax on net investment income, a "large organization" is one that had net investment income of \$1 million or more for any of the 3 tax years immediately preceding the tax year involved.

### Special rules.

**Section 4947(a)(1) nonexempt charitable trusts** should use Form 1041-ES for paying any estimated tax on income subject to tax under section 1. Form 1041-ES also contains the estimated tax rules for paying the tax on that income.

**Taxable foundations** should use Form 8109, and darken the 1120 box on that form for paying any estimated tax on income subject to tax under section 11. Form 1120-W contains the estimated tax rules for paying the tax on that income.

**Penalty.** A foundation that does not pay the proper estimated tax when due may be subject to the estimated tax penalty for the period of the underpayment. (See sections 6655(b) and (d) and the Form 2220 instructions.)

## P. Tax Payment Methods for Domestic Private Foundations

Whether the foundation uses the depository method of tax payment or the special option for small foundations, it must pay the tax due (see Part VI) in full

by 15th day of the 5th month after the end of its tax year.

### Depository Method of Tax Payment

Some foundations (described below) are required to electronically deposit all depository taxes, including their tax payments for the excise tax based on investment income.

#### Electronic Deposit Requirement

The foundation must make electronic deposits of all depository tax liabilities that occur after 1997 if:

- It was required to electronically deposit taxes in prior years,
- It deposited more than \$50,000 in social security, Medicare, or withheld income taxes in 1996, or
- It **did not** deposit social security, Medicare, or withheld income taxes in 1995 or 1996, but deposited more than \$50,000 in other taxes under section 6302 (such as the excise tax based on investment income) in either year.

For details, see Regulations section 31.6302-1(h).

The Electronic Federal Tax Payment System (EFTPS) must be used to make electronic deposits. If the foundation is required to make deposits electronically and fails to do so, it may be subject to a 10% penalty. However, no penalty will be imposed prior to July 1, 1998, if the foundation was first required to use EFTPS on or after July 1, 1997. Foundations that are not required to make electronic deposits may voluntarily participate in EFTPS. To enroll in EFTPS, call 1-800-945-8400 or 1-800-555-4477. For general information about EFTPS, call 1-800-829-1040.

#### Deposits With Form 8109

If the foundation does not use EFTPS, deposit estimated tax payments and any balance due for the excise tax based on investment income with **Form 8109**, Federal Tax Deposit Coupon. Do not send deposits directly to an IRS office. Mail or deliver the completed Form 8109 with the payment to a qualified depository for Federal taxes or to the Federal Reserve bank (FRB) servicing the foundation's geographic area. Make checks or money orders payable to that depository or FRB. To help ensure proper crediting, write the foundation's employer identification number (EIN), the tax period to which the deposit applies, and "Form 990-PF" on the check or money order. Be sure to darken the "990-PF" box on the coupon. Records of these deposits will be sent to the IRS.

A penalty may be imposed if the deposits are mailed or delivered to an IRS office rather than to an authorized depository or FRB. For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub.**

**583**, Starting a Business and Keeping Records.

### Special Payment Option for Small Foundations

A private foundation may enclose a check or money order, payable to the Internal Revenue Service, with the Form 990-PF or Form 2758, if it meets all of the following requirements.

1. The foundation must not be required to use EFTPS.
2. The tax based on investment income shown on line 5, Part VI of Form 990-PF is less than \$500.
3. If Form 2758 is used, the amount entered on line 5a must be less than \$500 and it must be the full balance due.

Please write "1997 Form 990-PF" and the foundation's EIN on its check or money order. Also, include the foundation's name and address on the check or money order if it is not preprinted.

**Caution:** *Foreign organizations should see the instructions for Part VI, line 9.*

### Q. Public Inspection Requirements

#### From the organization

Information reported on Form 990-PF, including all attachments, is available for public inspection under section 6104(b). This applies both to information required by the form and to voluntary information. Therefore, the return and any attachments should be reproducible.

#### Annual Returns

Foundation managers must make the annual return available for inspection during regular business hours at the principal office of the foundation, or may give a free copy to any person requesting inspection, if the request is made at the time and in the manner prescribed in section 6104(d) and the related regulations.

**Notice requirements.** A notice that the private foundation's return is available for inspection must be published. The notice must:

- Be published by the due date (including extensions) for filing the return,
- Be published in a newspaper with general circulation in the county in which the private foundation's principal office is located,
- State that the private foundation's return is available for inspection at its principal office during regular business hours by any citizen who requests inspection within 180 days after the notice is published,
- Show the address and telephone number of the private foundation's principal office, and

- Show the name of the private foundation's principal manager.

If the foundation has no principal office or none other than the residence of a foundation manager or substantial contributor, then another appropriate location may be designated or the foundation may furnish a copy free of any charges to the person requesting an inspection in the time and manner discussed above.

Also, a private foundation may designate, in addition to its principal office, any other location where its return will be available.

**Attachment.** A copy of the newspaper notice **must** be attached to the Form 990-PF that the foundation files with the Internal Revenue Service.

**Newspaper with general circulation.** A newspaper or journal that publishes real estate title transfers or other similar legal notices to satisfy state law requirements is considered to have general circulation.

**180-day inspection period.** To ensure that the return is available for public inspection for the full 180-day period, do **not** publish the notice until the return has been completed and is available for inspection upon request.

**Penalties.** If a foundation does not publish the notice and attach a copy of it to a timely filed return, there is a penalty of \$20 a day, up to a maximum of \$10,000 for any one return (section 6652(c)). The penalty is imposed on the person under a duty to act, but who fails to do so without reasonable cause. The penalty is also imposed on any person who does not make the return (including all required attachments) available for public inspection according to the section 6104(d) provisions discussed above under **Annual returns**. If more than one person is responsible for either failure to act, each person is jointly and severally liable for the full amount of the penalty. Any person who willfully fails to comply is subject to an additional penalty of \$1,000 (section 6685). This penalty will increase to \$5,000, 60 days after the Treasury issues certain regulations about public inspections.

**Exceptions.** A private foundation that has terminated its status as such under section 507(b)(1)(A), by distributing all its net assets to one or more public charities without keeping any right, title, or interest in those assets, does not have to publish notice of availability of its annual return or furnish the return to the public for the tax year in which it terminates (Regulations section 1.507-2(a)(6)).

The notice and public inspection provisions discussed above do not apply to any foreign foundation that, from the date of its creation, has received at least 85% of its support (excluding gross investment income) from sources outside the United States. The requirement to

furnish copies of annual returns to state officials also does not apply to such foreign foundations (see General Instruction G).

### Exemption applications

Any section 501(c) organization that filed an application for recognition of exemption to the Internal Revenue Service after July 15, 1987, must make available for public inspection a copy of its application (and any papers submitted in support of its application) and any letter or other document issued by the IRS in response to the application. An organization that filed its exemption application on or before July 15, 1987, must comply with this requirement if it had a copy of its application on July 15, 1987. The copy of the application and related documents must be made available for inspection during regular business hours at the organization's principal office and at each of its regional or district offices having at least three employees.

Any person who does not comply with the requirement for public inspection of applications will be charged a penalty of \$20 for each day that inspection was not permitted. There is no limitation. No penalty will be imposed if the failure is due to reasonable cause. If more than one person is responsible for failure to comply with this requirement, each person is jointly and severally liable for the full amount of the penalty. Any person who willfully fails to comply is subject to an additional penalty of \$1,000. This penalty will increase to \$5,000, 60 days after the Treasury issues certain regulations about public inspections.

### From the IRS

Both exempt organization returns and approved exemption applications may be inspected by the public at IRS district offices and at the IRS National Office in Washington, DC.

A request for inspection must be in writing and must include the name and address (city and state) of the organization that filed the return or application. A request to inspect a return should indicate the type (number) of the return and the year(s) involved. The request should be sent to the District Director (Attention: Disclosure Officer) of the district in which the requester wants to inspect the return or application. If the requester wants the inspection at the IRS National Office, the request should be sent to the following address.

Commissioner of Internal Revenue  
Attention: Freedom of Information  
Reading Room  
1111 Constitution Ave., NW  
Washington, DC 20224

Form 4506-A can be used to request a copy or to inspect an exempt organization return at an IRS office. There is a charge for photocopying.

## R. Disclosures Regarding Certain Information and Services Furnished

A section 501(c) organization that offers to sell or solicits money for specific information or a routine service to any individual that could be obtained by the individual from a Federal Government agency free or for a nominal charge must disclose that fact conspicuously when making such offer or solicitation.

Any organization that intentionally disregards this requirement will be subject to a penalty for each day the offers or solicitations are made. The penalty is the greater of \$1,000 or 50% of the total cost of the offers and solicitations made on that day.

## S. Organizations Organized or Created in a Foreign Country or U.S. Possession

If you apply any provision of any U.S. tax treaty to compute the foundation's taxable income, tax liability, or tax credits in a manner different from the 990-PF instructions, attach an explanation.

Regulations section 53.4948-1(b) states that sections 507, 508, and Chapter 42 (other than section 4948) do not apply to a foreign private foundation that from the date of its creation has received at least 85% of its support (as defined in section 509(d), other than section 509(d)(4)) from sources outside the United States.

Section 4948(a) imposes a 4% tax on the gross investment income from U.S. sources (i.e., income from dividends, interest, rents, payments received on securities loans (as defined in section 512(a)(5)), and royalties not reported on Form 990-T of an exempt foreign private foundation. This tax replaces the section 4940 tax on the net investment income of a domestic private foundation. To pay any tax due, see the instructions for Part VI, line 9.

Taxable foreign private foundations and foreign section 4947(a)(1) nonexempt charitable trusts are not subject to the excise taxes under sections 4948(a) and 4940, but are subject to income tax under subtitle A of the Code.

Certain foreign foundations are not required to send copies of annual returns to state officials, or comply with the public inspection and notice requirements of annual returns. (See General Instructions G and Q.)

## T. Liquidation, Dissolution, Termination, or Substantial Contraction

If there is a liquidation, dissolution, termination, or substantial contraction

(defined below) of the organization, attach:

1. A statement to the return explaining it,
2. A certified copy of the liquidation plan, resolution, etc. (if any) and all amendments or supplements that were not previously filed,
3. A schedule that lists the names and addresses of all recipients of assets, and
4. An explanation of the nature and fair market value of the assets distributed to each recipient.

**Additional requirements.** For a complete corporate liquidation or trust termination, attach a statement as to whether a final distribution of assets was made and the date it was made (if applicable).

Also, if the organization:

- Has ceased to exist, write "Final Return" at the top of page 1 of the return.
- Is terminating its private foundation status under section 507(b)(1)(B), see General Instructions U and V.

### Relief from public inspection

**requirements.** If the organization has terminated its private foundation status under section 507(b)(1)(A), it does not have to comply with the notice and public inspection requirements of their return for the termination year (see **Exception** in General Instruction Q).

**Filing date.** See General Instruction J for the filing date.

**Definitions.** The term **substantial contraction** includes any partial liquidation or any other *significant disposition* of assets. However, this does not include transfers for full and adequate consideration or distributions of current income.

A **significant disposition** of assets does not include any disposition for a tax year if:

1. The total of the dispositions for the tax year is less than 25% of the fair market value of the net assets of the organization at the beginning of the tax year, and
2. The total of the related dispositions made during prior tax years (if a disposition is part of a series of related dispositions made during these prior tax years) is less than 25% of the fair market value of the net assets of the organization at the beginning of the tax year in which any of the series of related dispositions was made.

The facts and circumstances of the particular case will determine whether a significant disposition has occurred through a series of related dispositions. Ordinarily, a distribution described in section 170(b)(1)(E)(ii) (relating to private foundations making qualifying distributions out of corpus equal to 100% of contributions received during the foundation's tax year) will not be taken

into account as a significant disposition of assets. See Regulations section 1.170A-9(g)(2).

## U. Filing Requirements During Section 507(b)(1)(B) Termination

Although an organization terminating its private foundation status under section 507(b)(1)(B) may be regarded as a public charity for certain purposes, it is considered a private foundation for filing requirement purposes and it must file an annual return on Form 990-PF. The return must be filed for each year in the 60-month termination period, if that period has not expired before the due date of the return.

Regulations under section 507(b)(1)(B)(iii) specify that within 90 days after the end of the termination period the organization must supply information to its key district director establishing that it has terminated its private foundation status and, therefore, qualifies as a public charity. If information is furnished establishing a successful termination, then, for the final year of the termination period, the organization should comply with the filing requirements for the type of public charity it has become. See the Instructions for Form 990 and Schedule A (Form 990) for details on filing requirements. This applies even if the key district has not confirmed that the organization has terminated its private foundation status by the time the return for the final year of the termination is due (or would be due if a return were required).

The organization will be allowed a reasonable period of time to file any private foundation returns required (for the last year of the termination period) but not previously filed if it is later determined that the organization did not terminate its private foundation status. Interest on any tax due will be charged from the original due date of the Form 990-PF, but penalties under sections 6651 and 6652 will not be assessed if the Form 990-PF is filed within the period allowed by the key district.

## V. Special Rules for Section 507(b)(1)(B) Terminations

If the organization is terminating its private foundation status under the 60-month provisions of section 507(b)(1)(B), special rules apply. (See General Instructions T and U.) Under these rules, the organization may file Form 990-PF without paying the tax on net investment income if it filed a consent under section 6501(c)(4) with its notification to the district director of its intention to begin a section 507(b)(1)(B) termination. The consent provides that the

period of limitation on the assessment of excise tax under section 4940 or 4948 on investment income for any tax year in the 60-month period will not expire until at least 1 year after the period for assessing a deficiency for the last tax year in which the 60-month period would normally expire. Any foundation not paying the tax when it files Form 990-PF must attach a copy of the signed consent.

If the foundation did not file the consent, the tax must be paid in the normal manner as explained in General Instructions O and P. The organization may file a claim for refund after completing termination or during the termination period. The claim for refund must be filed on time and the organization must supply information establishing that it qualified as a public charity for the period for which it paid the tax.

## W. Rounding, Currency, and Attachments

### Rounding off to whole-dollar amounts.

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

**Currency and language requirements.** Report all amounts in U.S. dollars (state conversion rate used). Report all items in total, including amounts from both U.S. and non-U.S. sources. All information must be in English.

**Attachments.** Use the schedules on Form 990-PF. If you need more space use attachments that are the same size as the printed forms.

On each sheet:

1. Write:
  - "Form 990-PF,"
  - The tax year, and
  - The corresponding schedule number or letter,
2. Include the organization's name and EIN,
3. Follow the format and line sequence of the printed form,
4. Include the information required by the form, and
5. Show totals on the printed forms.

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## Specific Instructions

### Completing the Heading

The following instructions are keyed to items in the Form 990-PF heading.

#### Name and Address

If the organization received a Form 990-PF Package from the IRS with a preaddressed label, please use it. If the name or address on the label is wrong,

make corrections on the label. The address used must be that of the principal office of the foundation.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

### A—Employer Identification Number

The organization should have only one employer identification number. If it has more than one number, notify the Internal Revenue Service Center at the appropriate address shown under General Instruction J. Explain what numbers the organization has, the name and address to which each number was assigned, and the address of the organization's principal office. The IRS will then advise which number to use.

### D2—Foreign Organizations

If the organization meets the 85% test of Regulations section 53.4948-1(b), then:

1. Check the box in D2 on page 1 of Form 990-PF,
2. Check the box at the top of Part XI,
3. **Do not** fill in Parts XI and XIII,
4. **Do not** fill in Part X unless it is claiming status as a private operating foundation, and
5. Attach the computation of the 85% test to Form 990-PF.

### E—Section 507(b)(1)(A) Terminations

A private foundation that has terminated its status as such under section 507(b)(1)(A), by distributing all its net assets to one or more public charities without keeping any right, title, or interest in those assets, should check the box in E on page 1 of Form 990-PF. See General Instructions T and Q.

### F—60-Month Termination Under Section 507(b)(1)(B)

Check the box in F on page 1 of Form 990-PF if the organization is terminating its private foundation status under the 60-month provisions of section 507(b)(1)(B) during the period covered by this return. To begin such a termination, a private foundation must have given advance notice to its key district director and provided the information outlined in Regulations section 1.507-2(b)(3). See General Instruction U for information regarding filing requirements during a section 507(b)(1)(B) termination.

See General Instruction V for information regarding payment of the tax on investment income (computed in Part VI) during a section 507(b)(1)(B) termination.



## H—Type of Organization

Check the box for “Section 501(c)(3) exempt private foundation” if the foundation has a ruling or determination letter from the IRS in effect that recognizes its exemption from Federal income tax as an organization described in section 501(c)(3) or if the organization’s exemption application is pending with the IRS.

Check the “Section 4947(a)(1) nonexempt charitable trust” box if the trust is a nonexempt charitable trust treated as a private foundation. All others, check the “Other taxable private foundation” box.

## I—Fair Market Value of All Assets

In block I on page 1 of Form 990-PF, enter the fair market value of all assets the foundation held at the end of the tax year.

**Tip!** *This amount should be the same as the figure reported in Part II, column (c), line 16.*

## Part I—Analysis of Revenue and Expenses

### Column Instructions

The total of amounts in columns (b), (c), and (d) **may not** necessarily equal the amounts in column (a).

The amounts entered in column (a) and on line 5b must be analyzed in Part XVI-A.

### Column (a)—Revenue and Expenses per Books

Enter in column (a) all items of revenue and expense shown in the books and records that increased or decreased the net assets of the organization. However, do not include the value of services donated to the foundation, or items such as the free use of equipment or facilities, in contributions received. Also, do not include any expenses used to compute capital gains and losses on lines 6, 7, and 8 or expenses included in cost of goods sold on line 10b.

### Column (b)—Net Investment Income

All domestic private foundations (including section 4947(a)(1) nonexempt charitable trusts) are required to pay an excise tax each tax year on their net investment income.

Exempt foreign foundations are subject to an excise tax on their gross investment income from U.S. sources. These foreign organizations should complete lines 3, 4, 5, 11, 12, and 27b of column (b) and report **only** income derived from U.S. sources. No other income should be included. No expenses are allowed as deductions.

### Definitions.

**Gross investment income** means the total amount of investment income that was received by a private foundation from all sources. However, it does not include any income subject to the unrelated business income tax. It includes interest, dividends, rents, payments with respect to securities loans (as defined in section 512(a)(5)), royalties received from assets devoted to charitable activities, income from notional principal contracts (as defined in Regulations section 1.863-7), and other substantially similar income from ordinary and routine investments excluded by section 512(b)(1). Therefore, interest received on a student loan is includible in the gross investment income of a private foundation making the loan.

**Net investment income** is the amount by which the sum of gross investment income and the capital gain net income exceeds the allowable deductions discussed later. Tax-exempt interest on governmental obligations and related expenses are excluded.

**Investment income.** Include in column (b) all or part of any amount from column (a) that applies to investment income. However, do not include in column (b) any interest, dividends, rents or royalties (and related expenses) that were reported on Form 990-T.

**For example,** investment income from debt-financed property unrelated to the organization’s charitable purpose and certain rents (and related expenses) treated as unrelated trade or business income should be reported on Form 990-T. Income from debt-financed property that is not taxed under section 511 is taxed under section 4940. Thus, if the debt/basis percentage of a debt-financed property is 80%, only 80% of the gross income (and expenses) for that property is used to figure the section 511 tax on Form 990-T. The remaining 20% of the gross income (and expenses) of that property is used to figure the section 4940 tax on net investment income on Form 990-PF. (See Form 990-T and its instructions for more information.)

**Investment expenses.** Include in column (b) all ordinary and necessary expenses paid or incurred to produce or collect investment income from: interest, dividends, rents, amounts received from payments on securities loans (as defined in section 512(a)(5)), royalties, income from notional principal contracts, and other substantially similar income from ordinary and routine investments excluded by section 512(b)(1); or for the management, conservation, or maintenance of property held for the production of income that is taxable under section 4940.

If any of the expenses listed in column (a) are paid or incurred for both investment and charitable purposes, they

must be allocated on a reasonable basis between the investment activities and the charitable activities so that only expenses from investment activities appear in column (b). Examples of allocation methods are given in the instructions for Part IX-A.

**Limitation.** The deduction for expenses paid or incurred in any tax year for producing gross investment income earned incident to a charitable function cannot be more than the amount of income earned from the function that is includible as gross investment income for the year.

**For example,** if rental income is incidentally realized in 1997 from historic buildings held open to the public, deductions for amounts paid or incurred in 1997 for the production of this income may not be more than the amount of rental income includible as gross investment income in column (b) for 1997.

**Expenses related to tax-exempt interest.** Do not include on lines 13–23 of column (b) any expenses paid or incurred that are allocable to tax-exempt interest that is excluded from lines 3 and 4.

### Column (c)—Adjusted Net Income

**Tip!** *Nonoperating private foundations should see 1 below under Nonoperating private foundations to see if they should complete column (c).*

**Private operating foundations.** All organizations that claim status as private operating foundations under section 4942(j)(3) or (5) must complete all lines of column (c) that apply, according to the general rules for income and expenses that apply to this column, the specific line instructions for lines 3–27c, the **Special rule** and Examples 1 and 2 below.

**General rules.** In general, adjusted net income is the amount of a private foundation’s gross income that is more than the expenses of earning the income. The modifications and exclusions explained below are applied to gross income and expenses in figuring adjusted net income.

For income and expenses, include on each line of column (c) only that portion of the amount from column (a) that is applicable to the adjusted net income computation.

**Income.** For column (c), include income from charitable functions, investment activities, short-term capital gains from investments, amounts set aside, and unrelated trade or business activities. Do not include gifts, grants, or contributions, or long-term capital gains or losses.

**Expenses.** Deductible expenses include the part of a private foundation’s operating expenses that is paid or incurred to produce or collect gross income reported on lines 3–11 of column

(c). If only part of the property produces income includible in column (c), deductions such as interest, taxes, and rent must be divided between the charitable and noncharitable uses of the property. If the deductions for property used for a charitable, educational, or other similar purpose are more than the income from the property, the excess will not be allowed as a deduction but may be treated as a qualifying distribution in Part I, column (d). See Examples 1 and 2 below.

**Special rule.** The expenses attributable to each specific charitable activity, limited by the amount of income from the activity, must be reported in column (c) on lines 13–26. If the expenses of any charitable activity exceed the income generated by that activity, **only** the excess of these expenses over the income should be reported in column (d).

**Examples.**

1. A charitable activity generated \$5,000 of income and \$4,000 of expenses. Report all of the income and expenses in column (c) and none in column (d).

2. A charitable activity generated \$5,000 of income and \$6,000 of expenses. Report \$5,000 of income and \$5,000 of expenses in column (c) and the excess expenses of \$1,000 in column (d).

**Nonoperating private foundations.** The following rules apply to nonoperating private foundations.

1. If a nonoperating private foundation has no income from charitable activities that would be reportable on line 10 or line 11 of Part I, it does not have to make any entries in column (c).

2. If a nonoperating private foundation has income from charitable activities, it must report that income only on lines 10 and/or 11 in column (c). These foundations do not need to report other kinds of income and expenses (such as investment income and expenses) in column (c).

3. If a nonoperating private foundation has income that it reports on lines 10 and/or 11, report any expenses relating to this income following the general rules and the special rule. See Examples 1 and 2 above.

**Column (d)—Disbursements for Charitable Purposes**

Expenses entered in column (d) relate to activities that constitute the charitable purpose of the foundation.

For amounts entered in column (d):

- Use the cash receipts and disbursements method of accounting no matter what accounting method is used in keeping the books of the foundation.
- **Do not** include any amount or part of an amount that is included in column (b) or (c).

- Include on lines 13–25 all expenses, including necessary and reasonable administrative expenses, paid by the foundation for religious, charitable, scientific, literary, educational, or other public purposes, or for the prevention of cruelty to children or animals.

- Include a distribution of property at the fair market value on the date the distribution was made.

- Include only the part entered in column (a) that is allocable to the charitable purposes of the foundation.

**Example.** An educational seminar produced \$1,000 in income that was reportable in columns (a) and (c). Expenses attributable to this charitable activity were \$1,900. Only \$1,000 of expense should be reported in column (c) and the remaining \$900 in expense should be reported in column (d).

**Qualifying distributions.** Generally, gifts and grants to organizations described in section 501(c)(3), that have been determined to be publicly supported charities (i.e., organizations that are not private foundations as defined in section 509(a)), are qualifying distributions, provided that the granting foundation does not control the public charity.

**Tip!** *The total of the expenses and disbursements on line 26 is also entered on line 1a in Part XII to figure qualifying distributions.*

**Alternative to completing lines 13–25.**

If you want to provide an analysis of disbursements that is more detailed than column (d), you may attach a schedule instead of completing lines 13–25. The schedule must include all the specific items of lines 13–25, and the total from the schedule must be entered in column (d), line 26.

**Line Instructions**

**Line 1—Contributions, gifts, grants, etc., received.** Enter the total of gross contributions, gifts, grants, and similar amounts received. If money, securities, or other property valued at \$5,000 or more was received directly or indirectly from any one person during the year, attach a schedule showing the name and address of the person and the amount and date of each gift made during the year.

To determine whether a person has contributed \$5,000 or more, total only gifts of \$1,000 or more from each person. Separate and independent gifts need not be totaled if less than \$1,000. If a contribution is in the form of property, describe the property and include its fair market value.

The term “person” includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations.

An organization must keep records, required by the regulations under section 170, for all its charitable contributions.

**Change in accounting method to conform with SFAS 116.** If the private foundation changed its accounting method for tax purposes to conform with SFAS 116 and part or all of its net asset adjustment (section 481(a) adjustment) represents contributions, then include in the list of contributors that is attached to the return any contributor of an amount that is included in the adjustment and meets the requirements above. Report the contributors that meet these requirements in the year of the change.

**Split-interest trusts.** Contributions from split-interest trusts should be entered on **both** line 1 of column (a) and line 2 of column (b). They are a part of the amount on line 1. Report contributions only on lines 1 and 2.

**Substantiation requirements.**

Generally, a donor making a charitable contribution of \$250 or more will not be allowed a Federal income tax deduction unless the donor obtains a written acknowledgment from the donee organization by the earlier of the date on which the donor files a tax return for the tax year in which the contribution was made or the due date, including extensions, for filing that return. However, see section 170(f)(8) and the related temporary regulations for exceptions to this rule.

The written acknowledgment the foundation provides to the donor must show:

1. The amount of cash contributed,
2. A description of any property contributed,
3. Whether the foundation provided any goods or services to the donor, and
4. A description and a good-faith estimate of the value of any goods or services the foundation gave in return for the contribution, unless:
  - a. The goods and services have insubstantial value, or
  - b. A statement is included that these goods and services consist solely of intangible religious benefits.

Generally, if a charitable organization solicits or receives a contribution of more than \$75 for which it gives the donor something in return (a quid pro quo contribution), the organization must inform the donor, by written statement, that the amount of the contribution deductible for Federal income tax purposes is limited to the amount by which the contribution exceeds the value of the goods or services received by the donor. The written statement must also provide the donor with a good-faith estimate of the value of goods or services given in return for the contribution.

**Penalties.** An organization that does not make the required disclosure for each quid pro quo contribution will incur a penalty of \$10 for each failure, not to exceed \$5,000 for a particular fundraising event or mailing, unless it can show reasonable cause for not providing the disclosure.

**For more information.** See Regulations section 1.170A-13 for more information on charitable recordkeeping and substantiation requirements.

**Line 2—Certain contributions from “split-interest” trusts described in section 4947(a)(2).** The income portion of distributions from split-interest trusts that was earned on amounts placed in trust after May 26, 1969, is treated as investment income. Include only the income portion of these distributions on line 2. That same figure is a part of line 1.

**Line 3—Interest on savings and temporary cash investments.**

**In column (a),** enter the total amount of interest income from investments of the type reportable in Balance Sheets, Part II, line 2. These include savings or other interest-bearing accounts and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other government obligations that mature in less than 1 year.

**In column (b),** enter the amount of interest income shown in column (a). Do not include interest on tax-exempt government obligations.

**In column (c),** enter the amount of interest income shown in column (a). Include interest on tax-exempt government obligations.

**Line 4—Dividends and interest from securities.**

**In column (a),** enter the amount of dividend and interest income from securities (stocks and bonds) of the type reportable in Balance Sheets, Part II, line 10. Include amounts received from payments on securities loans, as defined in section 512(a)(5). Do not include any capital gain dividends reportable on line 6. Report income from program-related investments on line 11. For debt instruments with an original issue discount, report the original issue discount ratably over the life of the bond on line 4. See section 1272 for more information.

**In column (b),** enter the amount of dividend and interest income, and payments on securities loans from column (a). Do not include interest on tax-exempt government obligations.

**In column (c),** enter the amount of dividends and interest income, and payments on securities loans from column (a). Include interest on tax-exempt government obligations.

**Line 5a—Gross rents.**

**In column (a),** enter the gross rental income for the year from investment property reportable on line 11 of Part II.

**In columns (b) and (c),** enter the gross rental income from column (a).

**Line 5b—Net rental income or (loss).**

Figure the net rental income or (loss) for the year and enter that amount on the entry line to the left of column (a).

Report rents from other sources on line 11, Other income. Enter any expenses attributable to the rental income reported on line 5, such as interest and depreciation, on lines 13–23.

**Line 6—Net gain or (loss) from sale of assets.** Enter the net gain or (loss) per books from all asset sales not included on line 10.

For assets sold and not included in Part IV, attach a schedule showing:

- Date acquired,
- Manner of acquisition,
- Gross sales price,
- Cost, other basis, or value at time of acquisition (if donated) and which of these methods was used,
- Date sold,
- To whom sold,
- Expense of sale and cost of improvements made subsequent to acquisition, and
- Depreciation since acquisition (if depreciable property).

**Line 7—Capital gain net income.** Enter the capital gain net income from Part IV, line 2. See Part IV instructions.

**Line 8—Net short-term capital gain.**

**Tip!** Only private operating foundations report their short-term capital gains on line 8.

Include only net short-term capital gain for the year (assets sold or exchanged that were held not more than 1 year). Do not include a net long-term capital gain or a net loss in column (c).

Do not include on line 8 a net gain from the sale or exchange of depreciable property, or land used in a trade or business (section 1231) and held for more than 1 year. However, include a net loss from such property on line 23 as an Other expense.

In general, organizations may carry to line 8 the net short-term capital gain reported in Part IV, line 3. However, if the foundation had any short-term capital gain from sales of debt-financed property, add it to the amount reported on Part IV, line 3, to figure the amount to include on line 8. For definition of “debt-financed property,” see the instructions for Form 990-T.

**Line 9—Income modifications.** Include on this line:

- Amounts received or accrued as repayments of amounts taken into account as qualifying distributions (see

the instructions for Part XII for an explanation of qualifying distributions) for any year.

- Amounts received or accrued from the sale or other disposition of property to the extent that the acquisition of the property was considered a qualifying distribution for any tax year.

- Any amount set aside for a specific project (see explanation in the instructions for Part XII) that was not necessary for the purposes for which it was set aside.

- Income received from an estate, but only if the estate was considered terminated for income tax purposes due to a prolonged administration period.

- Amounts treated in an earlier tax year as qualifying distributions to:

1. A private foundation, which is not a private operating foundation, if the amounts were not redistributed by the grantee organization by the close of its tax year following the year in which it received the funds, or

2. An organization controlled by the distributing foundation or a disqualified person if the amounts were not redistributed by the grantee organization by the close of its tax year following the year in which it received the funds.

**Lines 10a, b, c—Gross profit from sales of inventory.** Enter the gross sales (less returns and allowances), cost of goods sold, and gross profit or (loss) from the sale of all inventory items, including those sold in the course of special events and activities. These inventory items are the ones the organization either makes to sell to others or buys for resale.

Do not report any sales or exchanges of investments on line 10.

Do not include any profit or (loss) from the sale of capital items such as securities, land, buildings, or equipment on line 10. Enter these amounts on line 6.

Do not include any business expenses such as salaries, taxes, rent, etc., on line 10. Include them on lines 13–23.

Attach a schedule showing the following items: Gross sales, Cost of goods sold, Gross profit or (loss). These items should be classified according to type of inventory sold (such as books, tapes, other educational or religious material, etc.). The totals from the schedule should agree with the entries on lines 10a–10c.

**In column (c),** enter the gross profit or (loss) from sales of inventory shown in column (a), line 10c.

**Line 11—Other income.** Enter the total of all the foundation's other income for the year. Include all income not reported on lines 1 through 10c. Refer to the instructions for Part XVI-A, line 11. Include imputed interest on certain deferred payments figured under section 483, and any investment income not

reportable on lines 3 through 5, including income from program-related investments (defined in the instructions for Part IX-B). However, do not include unrealized gains and losses on investments carried at market value. Report those as fund balance or net asset adjustments in Part III. Attach a schedule showing the description and amount of the income.

**In column (b)**, enter the amount of investment income included in line 11, column (a). Include dividends, interest, rents, and royalties derived from assets devoted to charitable activities, such as interest on student loans.

**In column (c)**, include all other items includible in adjusted net income not covered elsewhere in column (c).

**Line 12—Total.—In column (b)**, domestic organizations should enter the total of lines 2–11. Exempt foreign organizations, enter the total of lines 3, 4, 5, and 11 only.

**Line 13—Compensation of officers, directors, trustees, etc.**

**In column (a)**, enter the total compensation for the year of all officers, directors, and trustees. If none was paid, enter zero. Complete line 1 of Part VIII to show the compensation of officers, directors, trustees, and foundation managers.

**In columns (b), (c), and (d)**, enter the portion of the compensation included in column (a) that is applicable to the column. For example, in column (c) enter the portion of the compensation included in column (a) that was paid or incurred to produce or collect income included in column (c).

**Line 14—Other employee salaries and wages.** Enter the salaries and wages of all employees other than those included on line 13.

**Line 15—Contributions to employee pension plans and other benefits.** Enter the employer's share of the contributions the organization paid to qualified and nonqualified pension plans and the employer's share of contributions to employee benefit programs (such as insurance, health, and welfare programs) that are not an incidental part of a pension plan. Complete the return/report of the Form 5500 series appropriate for the organization's plan. (See the Instructions for Form 5500 for information about employee welfare benefit plans required to file that form.)

Also include the amount of Federal, state, and local payroll taxes for the year, but only those that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, FUTA tax, state unemployment compensation tax, and other state and local payroll taxes. Do not include taxes withheld from employees' salaries and paid over to the various governmental units (such as

Federal and state income taxes and the employee's share of social security and Medicare taxes).

**Lines 16a, b, and c—Legal, accounting, and other professional fees.** On the appropriate line(s), enter the amount of legal, accounting, auditing, and other professional fees (such as fees for fundraising or investment services) charged by **outside firms and individuals** who are not employees of the foundation.

Attach a schedule for lines 16a, b, and c. Show the type of service and amount of expense for each. If the same person provided more than one of these services, include an allocation of those expenses. Report any fines, penalties, or judgments imposed against the foundation as a result of legal proceedings on line 23, Other expenses.

**Line 18—Taxes.** Attach a schedule listing the type and amount of each tax reported on line 18. Do not enter any taxes included on line 15.

**In column (a)**, enter the taxes paid (or accrued) during the year. Include all types of taxes recorded on the books, including real estate tax not reported on line 20; the tax on investment income; and any income tax.

**In column (b)**, enter only those taxes included in column (a) that are related to investment income taxable under section 4940. **Do not** include the section 4940 tax paid or incurred on net investment income or the section 511 tax on unrelated business income. Sales taxes may not be deducted separately, but must be treated as a part of the cost of acquired property, or as a reduction of the amount realized on disposition of the property.

**In column (c)**, enter only those taxes included in column (a) that relate to income included in column (c). **Do not** include any excise tax paid or incurred on the net investment income (as shown in Part VI), or any tax reported on Form 990-T.

**In column (d)**, do not include any excise tax paid on investment income (as reported in Part VI of this return or the equivalent part of a return for prior years) unless the organization is claiming status as a private operating foundation and completes Part XIV.

**Line 19—Depreciation and depletion.**

**In column (a)**, enter the expense recorded in the books for the year.

For depreciation, attach a schedule showing:

1. A description of the property,
2. The date acquired,
3. The cost or other basis (exclude any land),
4. The depreciation allowed or allowable in prior years,
5. The method of computation,
6. The rate (%) or life (years), and

7. The depreciation this year.

On a separate line on the schedule, show the amount of depreciation included in cost of goods sold and not included on line 19.

**In columns (b) and (c)**, a deduction for depreciation is allowed only for property used in the production of income reported in the column, and **only** using the straight line method of computing depreciation. A deduction for depletion is allowed but must be figured **only** using the cost depletion method.

The basis used in figuring depreciation and depletion is the basis determined under normal basis rules, without regard to the special rules for using the fair market value on December 31, 1969, that relate only to gain or loss on dispositions for purposes of the tax on net investment income.

**Line 20—Occupancy.** Enter the amount paid or incurred for the use of office space or other facilities. If the space is rented or leased, enter the amount of rent. If the space is owned, enter the amount of mortgage interest, real estate taxes, and similar expenses, but not depreciation (reportable on line 19). In either case, include the amount for utilities and related expenses (e.g., heat, lights, water, power, telephone, sewer, trash removal, outside janitorial services, and similar services). Do not include any salaries of the organization's own employees that are reportable on line 14.

**Line 21—Travel, conferences, and meetings.** Enter the expenses for officers, employees, or others during the year for travel, attending conferences, meetings, etc. Include transportation (including fares, mileage allowance, or automobile expenses), meals and lodging, and related costs whether paid on the basis of a per diem allowance or actual expenses incurred. Do not include any compensation paid to those who participate.

**In column (b)**, only 50% of the expense for business meals, etc., paid or incurred in connection with travel, meetings, etc., relating to the production of investment income, may be deducted in figuring net investment income (section 274(n)).

**In column (c)**, enter the total amount of expenses paid or incurred by officers, employees, or others for travel, conferences, meetings, etc., related to income included in column (c).

**Line 22—Printing and publications.** Enter the expenses for printing or publishing and distributing any newsletters, magazines, etc. Also include the cost of subscriptions to, or purchases of, magazines, newspapers, etc.

**Line 23—Other expenses.** Enter all other expenses for the year. Include all expenses not reported on lines 13–22. Attach a schedule showing the type and amount of each expense.

If a deduction is claimed for amortization, attach a schedule showing:

- Description of the amortized expenses;
- Date acquired, completed, or expended;
- Amount amortized;
- Deduction for prior years;
- Amortization period (number of months);
- Current-year amortization; and
- Total amount of amortization.

**In column (c)**, in addition to the applicable portion of expenses from column (a), include any net loss from the sale or exchange of land or depreciable property that was held for more than 1 year and used in a trade or business.

A deduction for amortization is allowed but only for assets used for the production of income reported in column (c).

#### **Line 25—Contributions, gifts, grants paid.**

**In column (a)**, enter the total of all contributions, gifts, grants, and similar amounts paid (or accrued) for the year. List each contribution, gift, grant, etc., in Part XV, or attach a schedule of the items included on line 25 and list:

1. Each class of activity,
2. A separate total for each activity,
3. Name and address of donee,
4. Relationship of donee if related by:
  - a. Blood,
  - b. Marriage,
  - c. Adoption, or
  - d. Employment (including children of employees) to any disqualified person (see General Instruction C for definitions), and
5. The organizational status of donee (e.g., public charity—an organization described in section 509(a)(1), (2), or (3)).

You do not have to give the name of any indigent person who received one or more gifts or grants from the foundation unless that individual is a disqualified person or one who received a total of more than \$1,000 from the foundation during the year.

Activities should be classified according to purpose and in greater detail than merely classifying them as charitable, educational, religious, or scientific activities. For example, use identification such as: payments for nursing service, for fellowships, or for assistance to indigent families.

Foundations may include, as a single entry on the schedule, the total of amounts paid as grants for which the foundation exercised expenditure responsibility. Attach a separate report for each grant.

When the fair market value of the property at the time of disbursement is the measure of a contribution, the schedule must also show:

1. A description of the contributed property,
2. The book value of the contributed property,
3. The method used to determine the book value,
4. The method used to determine the fair market value, and
5. The date of the gift.

**Tip!** *The difference between fair market value and book value should be shown in the books of account and as a net asset adjustment in Part III.*

**In column (d)**, enter on line 25 all contributions, gifts, and grants the foundation paid during the year.

• Do not include contributions to organizations controlled by the foundation or by a disqualified person (see General Instruction C for definitions). Do not include contributions to nonoperating private foundations unless the donees are exempt from tax under section 501(c)(3), they redistribute the contributions, and they maintain sufficient evidence of redistributions according to the regulations under section 4942(g).

• Do not reduce the amount of grants paid in the current year by the amount of grants paid in a prior year that was returned or recovered in the current year. Report those repayments in column (c), line 9, and in Part XI, line 4a.

• Do not include any payments of set-asides (see instructions for Part XII, line 3) taken into account as qualifying distributions in the current year or any prior year. All set-asides are included in qualifying distributions (Part XII, line 3) in the year of the set-aside regardless of when paid.

• Do not include current year's write-offs of prior years' program-related investments. All program-related investments are included in qualifying distributions (Part XII, line 1b) in the year the investment is made.

• Do not include any payments that are not qualifying distributions as defined in section 4942(g)(1).

#### **Net Amounts**

**Line 27a—Excess of revenue over expenses.** Subtract line 26, column (a), from line 12, column (a). Enter the result. Generally, the amount shown in column (a) on this line is also the amount by which net assets (or fund balances) have increased or decreased for the year. See the instructions for Part III, Analysis of Changes in Net Assets or Fund Balances.

**Line 27b—Net investment income.** Domestic organizations, subtract line 26 from line 12. Enter the result. Exempt foreign organizations, enter the amount shown on line 12.

The amount entered is subject to the excise tax imposed on private foundations (domestic organizations—1% (section

4940(e)), 2% (section 4940(a) or (b)), exempt foreign organizations—4% (section 4948)) as computed in Part VI. However, if the organization is a domestic organization and line 26 is more than line 12 (i.e., expenses exceed income), enter zero (not a negative amount).

#### **Line 27c—Adjusted net income.**

Subtract line 26, column (c) from line 12, column (c) and enter the result.

## **Part II—Balance Sheets**

For column (b), show the book value at the end of the year. For column (c), show the fair market value at the end of the year. Attached schedules must show the end-of-year value for each asset listed in columns (b) and (c).

• Foundations whose books of account included total assets of \$5,000 or more at any time during the year must complete all of columns (a), (b), and (c).

• Foundations with less than \$5,000 of total assets per books at all times during the year must complete all of columns (a) and (b), and only line 16 of column (c).

**Tip!** *A foundation that is changing its method of accounting to comply with SFAS No. 116 should not restate its beginning of year statement of financial position (balance sheet) to reflect any prior period adjustments. See Part III—Analysis of Changes in Net Assets or Fund Balances to find where to show any adjustment required by section 481(a).*

#### **Line 1—Cash—Non-interest-bearing.**

Enter the amount of cash on deposit in checking accounts, deposits in transit, change funds, petty cash funds, or any other non-interest-bearing account. Do not include advances to employees or officers or refundable deposits paid to suppliers or others.

**Line 2—Savings and temporary cash investments.** Enter the total of cash in savings or other interest-bearing accounts and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other governmental obligations that mature in less than 1 year.

**Line 3—Accounts receivable.** On the dashed lines to the left of column (a), enter the year-end figures for total accounts receivable and allowance for doubtful accounts from the sale of goods and/or the performance of services. In columns (a), (b), and (c), enter net amounts (total accounts receivable reduced by the corresponding allowance for doubtful accounts). Claims against vendors or refundable deposits with suppliers or others may be reported here if not significant in amount. (Otherwise, report them on line 15, Other assets.) Any receivables due from officers, directors, trustees, foundation managers, or other disqualified persons must be reported on line 6. Report receivables (including loans

and advances) due from other employees on line 15.

**Line 4—Pledges receivable.** On the dashed lines to the left of column (a), enter the year-end figures for total pledges receivable and allowance for doubtful accounts (pledges estimated to be uncollectable). In columns (a), (b), and (c), enter net amounts (total pledges receivable reduced by the corresponding allowance for doubtful accounts).

**Line 5—Grants receivable.** Enter the total grants receivable from governmental agencies, foundations, and other organizations as of the beginning and end of the year.

**Line 6—Receivables due from officers, directors, trustees, and other disqualified persons.** Enter here (and on an attached schedule described below) all receivables due from officers, directors, trustees, foundation managers, and other disqualified persons and all secured and unsecured loans (including advances) to such persons. "Disqualified person" is defined in General Instruction C.

**Attached schedules. (a)** On the required schedule, report each loan separately, even if more than one loan was made to the same person, or the same terms apply to all loans made.

Salary advances and other advances for the personal use and benefit of the recipient and receivables subject to special terms or arising from transactions not functionally related to the foundation's charitable purposes must be reported as separate loans for each officer, director, etc.

**(b)** Receivables that are subject to the same terms and conditions (including credit limits and rate of interest) as receivables due from the general public from an activity functionally related to the foundation's charitable purposes may be reported as a single total for all the officers, directors, etc. Travel advances made for official business of the organization may also be reported as a single total.

For each outstanding loan or other receivable that must be reported separately, the attached schedule should show the following information (preferably in columnar form):

1. Borrower's name and title.
2. Original amount.
3. Balance due.
4. Date of note.
5. Maturity date.
6. Repayment terms.
7. Interest rate.
8. Security provided by the borrower.
9. Purpose of the loan.
10. Description and fair market value of the consideration furnished by the

lender (e.g., cash—\$1,000; or 100 shares of XYZ, Inc., common stock—\$9,000).

The above detail is not required for receivables or travel advances that may be reported as a single total (see **(b)** above); however, report and identify those totals separately on the attachment.

**Line 7—Other notes and loans receivable.** On the dashed lines to the left of column (a), enter the combined total year-end figures for notes receivable and loans receivable and the allowance for doubtful accounts.

**Notes receivable.** In columns (a), (b), and (c), enter the amount of all notes receivable not listed on line 6 and not acquired as investments. Attach a schedule similar to the one for line 6. The schedule should also identify the relationship of the borrower to any officer, director, trustee, foundation manager, or other disqualified person.

For a note receivable from any section 501(c)(3) organization, list only the name of the borrower and the balance due on the required schedule.

**Loans receivable.** In columns (a), (b), and (c), enter the gross amount of loans receivable, minus the allowance for doubtful accounts, from the normal activities of the filing organization (such as scholarship loans). An itemized list of these loans is not required but attach a schedule showing the total amount of each type of outstanding loan. Report loans to officers, directors, trustees, foundation managers, or other disqualified persons on line 6 and loans to other employees on line 15.

**Line 8—Inventories for sale or use.** Enter the amount of materials, goods, and supplies purchased or manufactured by the organization and held for sale or use in some future period.

**Line 9—Prepaid expenses and deferred charges.** Enter the amount of short-term and long-term prepayments of expenses attributable to one or more future accounting periods. Examples include prepayments of rent, insurance, and pension costs, and expenses incurred in connection with a solicitation campaign to be conducted in a future accounting period.

**Lines 10a, b, and c—Investments—government obligations, corporate stocks and bonds.** Enter the book value (which may be market value) of these investments.

Attach a schedule that lists each security held at the end of the year and shows whether the security is listed at cost (including the value recorded at the time of receipt in the case of donated securities) or end-of-year market value. Do not include amounts shown on line 2. Governmental obligations reported on line 10a are those that mature in 1 year or more. Debt securities of the U.S.

Government may be reported as a single total rather than itemized. Obligations of state and municipal governments may also be reported as a lump-sum total. Do not combine U.S. Government obligations with state and municipal obligations on this schedule.

**Line 11—Investments—land, buildings, and equipment.** On the dashed lines to the left of column (a), enter the year-end book value (cost or other basis) and accumulated depreciation of all land, buildings, and equipment held for investment purposes, such as rental properties. In columns (a) and (b), enter the book value of all land, buildings, and equipment held for investment less accumulated depreciation. In column (c), enter the fair market value of these assets. Attach a schedule listing these investment fixed assets held at the end of the year and showing, for each item or category listed, the cost or other basis, accumulated depreciation, and book value.

**Line 12—Investments—mortgage loans.** Enter the amount of mortgage loans receivable held as investments but do not include program-related investments (see instructions for line 15).

**Line 13—Investments—other.** Enter the amount of all other investment holdings not reported on lines 10 through 12. Attach a schedule listing and describing each of these investments held at the end of the year. Show the book value for each and indicate whether the investment is listed at cost or end-of-year market value. Do not include program-related investments (see instructions for line 15).

**Line 14—Land, buildings, and equipment.** On the dashed lines to the left of column (a), enter the year-end book value (cost or other basis) and accumulated depreciation of all land, buildings, and equipment owned by the organization and not held for investment. In columns (a) and (b), enter the book value of all land, buildings, and equipment not held for investment less accumulated depreciation. In column (c), enter the fair market value of these assets. Include any property, plant, and equipment owned and used by the organization to conduct its charitable activities. Attach a schedule listing these fixed assets held at the end of the year and showing the cost or other basis, accumulated depreciation, and book value of each item or category listed.

**Line 15—Other assets.** List and show the book value of each category of assets not reportable on lines 1 through 14. Attach a separate schedule if more space is needed.

One type of asset reportable on line 15 is program-related investments. These are investments made primarily to accomplish a charitable purpose of the filing organization rather than to produce income.

**Line 16—Total assets.** All filers must complete line 16 of columns (a), (b), and (c). These entries represent the totals of lines 1 through 15 of each column. However, organizations that have assets of less than \$5,000 per books at all times during the year need not complete lines 1 through 15 of column (c).

**Line 17—Accounts payable and accrued expenses.** Enter the total of accounts payable to suppliers and others and accrued expenses, such as salaries payable, accrued payroll taxes, and interest payable.

**Line 18—Grants payable.** Enter the unpaid portion of grants and awards that the organization has made a commitment to pay other organizations or individuals, whether or not the commitments have been communicated to the grantees.

**Line 19—Deferred revenue.** Include revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

**Line 20—Loans from officers, directors, trustees, and other disqualified persons.** Enter the unpaid balance of loans received from officers, directors, trustees, and other disqualified persons. For loans outstanding at the end of the year, attach a schedule that shows (for each loan) the name and title of the lender and the information listed in items 2 through 10 of the instructions for line 6 on page 13.

**Line 21—Mortgages and other notes payable.** Enter the amount of mortgages and other notes payable at the beginning and end of the year. Attach a schedule showing, as of the end of the year, the total amount of all mortgages payable and, for each nonmortgage note payable, the name of the lender and the other information specified in items 2 through 10 of the instructions for line 6. The schedule should also identify the relationship of the lender to any officer, director, trustee, foundation manager, or other disqualified person.

**Line 22—Other liabilities.** List and show the amount of each liability not reportable on lines 17 through 21. Attach a separate schedule if more space is needed.

### **Lines 24 Through 30—Net Assets or Fund Balances**

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 117, Financial Statements of Not-for-Profit Organizations. SFAS 117 provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations including private foundations.

While some states may require reporting in accordance with SFAS 117 (see General Instruction F), the IRS does

not. However, a Form 990-PF return prepared in accordance with SFAS 117 will be acceptable to the IRS.

**Organizations that follow SFAS 117.** If the organization follows SFAS 117, check the box above line 24. Classify and report net assets in three groups—unrestricted, temporarily restricted, and permanently restricted—based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. Show the sum of the three classes of net assets on line 30. On line 31, add the amounts on lines 23 and 30 to show total liabilities and net assets. This figure should be the same as the figure for Total assets on line 16.

**Line 24—Unrestricted.** Enter the balances per books of the unrestricted class of net assets. Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. All funds without donor-imposed restrictions must be classified as unrestricted, regardless of the existence of any board designations or appropriations.

**Line 25—Temporarily restricted.** Enter the balances per books of the temporarily restricted class of net assets. Donors' temporary restrictions may require that resources be used in a later period or after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both.

**Line 26—Permanently restricted.** Enter the total of the balances for the permanently restricted class of net assets. Permanently restricted net assets are (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter result from gifts and bequests that create permanent endowment funds.

**Organizations that do not follow SFAS 117.** If the organization does not follow SFAS 117, check the box above line 27 and report account balances on lines 27 through 29. Report net assets or fund balances on line 30. Also complete line 31 to report the sum of the total liabilities and net assets/fund balances.

**Line 27—Capital stock, trust principal, or current funds.** For corporations, enter the balance per books for capital stock accounts. Show par or stated value (or for stock with no par or stated value, total amount received upon issuance) of all classes of stock issued and, as yet, uncanceled. For trusts, enter the amount in the trust principal or corpus account. For organizations continuing to use the fund method of accounting, enter the fund balances for the organization's current restricted and unrestricted funds.

**Line 28—Paid-in or capital surplus, or land, bldg., and equipment fund.** Enter the balance per books for all paid-in capital in excess of par or stated value for all stock issued and uncanceled. If stockholders or others gave donations that the organization records as paid-in capital, include them here. Report any current-year donations you included on line 28 in Part I, line 1. The fund balance for the land, building, and equipment fund would be entered here.

**Line 29—Retained earnings, accumulated income, endowment, or other funds.** For corporations, enter the balance in the retained earnings, or similar account, minus the cost of any corporate treasury stock. For trusts, enter the balance per books in the accumulated income or similar account. For organizations using fund accounting, enter the total of the fund balances for the permanent and term endowment funds as well as balances of any other funds not reported on lines 27 and 28.

**Line 30—Total assets or fund balances.** For organizations that follow SFAS 117, enter the total of lines 24 through 26. For all other organizations, enter the total of lines 27 through 29. Enter the beginning-of-year figure in column (a) on line 1, Part III. The end-of-year figure in column (b) must agree with the figure in Part III, line 6.

**Line 31—Total liabilities and net assets/fund balances.** Enter the total of lines 23 and 30. This amount must equal the amount for total assets reported on line 16 for both the beginning and end of the year.

### **Part III—Analysis of Changes in Net Assets or Fund Balances**

Generally, the excess of revenue over expenses accounts for the difference between the net assets at the beginning and end of the year. On line 2, Part III, re-enter the figure from Part I, line 27(a), column (a). On lines 3 and 5, list any changes in net assets that were not caused by the receipts or expenses shown in Part I, column (a). For example, if an asset is shown in the ending balance sheet at a higher value than in the beginning balance sheet because of an increased market value, include the increase in Part III, line 3.

If an organization changes its accounting method for tax purposes to conform with the method provided in SFAS 116, it should report any increase required by section 481(a) on line 3 and identify the adjustment as the effect of changing to the methods provided in SFAS 116.

If the organization uses a stepped-up basis to determine gains on sales of assets included in Part I, column (a), then

include the amount of step-up in basis in Part III. If you entered a contribution, gift, or grant of property valued at fair market value on line 25 of Part I, column (a), the difference between fair market value and book value should be shown in the books of account and as a net asset adjustment in Part III.

## Part IV—Capital Gains and Losses for Tax on Investment Income

Use Part IV to figure the amount of net capital gain to report on lines 7 and 8 of Part I.

- Part IV does not apply to foreign organizations.
- Nonoperating private foundations may not have to figure their short-term capital gain or loss on line 3. See the rules for **Nonoperating Private Foundations** on page 10.

Private foundations must report gains and losses from the sale or other disposition of property used to produce interest, dividends, rents, royalties, or unrelated income. If the foundation disposes of property that is used to produce income subject to the unrelated business income tax, include any gain or loss from the sale of that property in net investment income, but only the part that is not included in the computation of unrelated business taxable income.

Property is treated as held for investment purposes if the property is of a type that generally produces interest, dividends, rents or royalties, even if the foundation disposes of the property as soon as it receives it.

Do not include any gain or loss from disposing of property used for the foundation's charitable purposes in the computation of tax on net investment income. If the foundation uses property for its charitable purposes, but also incidentally derives income from the property that is subject to the net investment income tax, any gain or loss from the sale or other disposition of the property is not subject to the tax.

However, if the foundation uses property both for charitable purposes and (other than incidentally) for investment purposes, include in the computation of tax on net investment income the part of the gain or loss from the sale or disposition of the property that is allocable to the investment use of the property.

Do not include gains or losses from the sale or exchange of program-related investments as defined in the instructions for Part IX-B.

All of the capital gains reported on line 2, both short term and long term, are taxed at the same rate.

For details, see section 4940(c)(4).

**Losses.** If the disposition of investment property results in a loss, that loss may be subtracted from capital gains realized from the disposition of property during the same tax year but only to the extent of the gains. If losses are more than gains, the excess may not be subtracted from gross investment income, nor may the losses be carried back or forward to other tax years.

**Basis.** The basis for determining gain from the sale or other disposition of property is the **larger** of:

1. The fair market value of the property on December 31, 1969, plus or minus all adjustments after December 31, 1969, and before the date of disposition, if the foundation held the property on that date and continuously after that date until disposition; or

2. The basis of the property on the date of disposition under normal basis rules (actual basis). See Code sections 1011–1021.

The rules that generally apply to property dispositions reported in this part are:

- Section 1011, Adjusted basis for determining gain or loss.
- Section 1012, Basis of property—cost.
- Section 1014, Basis of property acquired from a decedent.
- Section 1015, Basis of property acquired by gifts and transfers in trust.
- Section 1016, Adjustments to basis.

To figure a loss, basis on the date of disposition is determined under normal basis rules.

See Chapter IV of Pub. 578 for examples on how to determine gain or loss. The completed Form 990-PF in **Package 990-PF**, Returns for Private Foundations or Section 4947(a)(1) Nonexempt Charitable Trusts Treated as Private Foundations, contains an example of a sale of investment property in which the gain was computed using the donor's basis under the rules of section 1015(a).

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

This part is used by exempt domestic private foundations to determine whether they qualify for the reduced 1% tax under section 4940(e) on net investment income rather than the 2% tax on net investment income under section 4940(a).

Do not complete Part V if this is the organization's first year. A private foundation cannot qualify under section 4940(e) for its first year of existence, nor can a former public charity qualify for the first year it is treated as a private foundation.

A separate computation must be made for each year in which the foundation wants to qualify for the reduced tax.

**Line 1, column (b).** Enter the amount of adjusted qualifying distributions made for each year shown. The amounts in column (b) are taken from Part XII, line 6 of the Form 990-PF for 1992–96.

**Line 1, column (c).** Enter the net value of noncharitable-use assets for each year. The amounts in column (c) are taken from Part X, line 5, for 1992–96.

## Part VI—Excise Tax on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948)

### Rules for tax on investment income.

Generally, domestic exempt private foundations are subject to a 2% tax on net investment income under section 4940(a). However, certain exempt operating foundations described in section 4940(d)(2) may not owe any tax and certain private foundations that meet the requirements of section 4940(e) may qualify for a reduced tax of 1% (see the Part V instructions).

Domestic section 4947(a)(1) nonexempt charitable trusts and taxable private foundations are subject to a modified 2% tax on net investment income under section 4940(b). However, they must first compute the tax under section 4940(a) as if that tax applied to them.

The section 4940 tax does not apply to an organization making an election under section 41(e)(6). Enter "N/A" in Part VI.

**Foreign organizations.** Under section 4948, exempt foreign private foundations are subject to a 4% tax on their gross investment income derived from U.S. sources.

Other foreign organizations that filed **Form 1040NR**, U.S. Nonresident Alien Income Tax Return, or **Form 1120-F**, U.S. Income Tax Return of a Foreign Corporation, enter "N/A" in Part VI.

**Estimated tax.** A private foundation must pay estimated taxes on its net investment income. See General Instruction O for more information.

### Tax Computation

**Caution:** *Line 1a only applies to domestic exempt operating foundations that are described in section 4940(d)(2) and that have a ruling letter from IRS establishing exempt operating foundation status. If your organization does not have this letter, skip line 1a.*

**Line 1a.** A domestic exempt private foundation that qualifies as an exempt operating foundation under section 4940(d)(2) is not liable for any tax on net investment income on this return.



If your organization qualifies, check the box and enter the date of the ruling letter on line 1a and enter "N/A" on line 1. Leave the rest of Part VI blank. **For the first year**, the organization must attach a copy of the ruling letter establishing exempt operating foundation status. As long as the organization retains this status, write the date of the ruling letter in the space on line 1a. If the organization no longer qualifies under section 4940(d)(2), leave the date line blank and compute the section 4940 tax in the normal manner.

**Qualification.** To qualify as an exempt operating foundation for a tax year, an organization must meet the following requirements of section 4940(d)(2):

1. It is an operating foundation described in section 4942(j)(3),
2. It has been publicly supported for at least 10 tax years or was a private operating foundation on January 1, 1983, or for its last tax year ending before January 1, 1983,
3. Its governing body, at all times during the tax year, consists of individuals less than 25% of whom are disqualified individuals, and is broadly representative of the general public, and
4. It has no officer who was a disqualified individual at any time during the tax year.

**Line 2—Section 511 tax.** Under section 4940(b), a domestic section 4947(a)(1) nonexempt charitable trust or taxable private foundation must add to the tax figured under section 4940(a) (on line 1) the tax which would have been imposed under section 511 for the tax year if it had been exempt from tax under section 501(a). If the domestic section 4947(a)(1) nonexempt charitable trust or taxable private foundation has unrelated business taxable income that would have been subject to the tax imposed by section 511, the computation of tax must be shown in an attachment. Form 990-T may be used as the attachment. All other filers, enter zero.

**Line 4—Subtitle A tax.** Domestic section 4947(a)(1) nonexempt charitable trusts and taxable private foundations, enter the amount of subtitle A (income) tax for the year reported on Form 1041 or Form 1120. All other filers, enter zero.

**Line 5—Tax on investment income.** Subtract line 4 from line 3 and enter the difference (but not less than zero) on line 5. Any overpayment entered on line 10 that is the result of a negative amount shown on line 5 will not be refunded. Unless the organization is a domestic section 4947(a)(1) nonexempt charitable trust or taxable private foundation, the amount on line 5 is the same as on line 1.

## Line 6—Credits/Payments

**Caution:** *Line 6a applies only to domestic organizations.*

**Line 6a.** Enter the amount of 1997 estimated tax payments, and any 1996 overpayment of taxes that the organization specified on its 1996 return to be credited toward payment of 1997 estimated taxes.

**Trust payments treated as beneficiary payments.** A trust may treat any part of estimated taxes it paid as taxes paid by the beneficiary. If the filing organization was a beneficiary that received the benefit of such a payment from a trust, include the amount on line 6a of Part VI, and write, "includes section 643(g) payment." See section 643(g) for more information about estimated tax payments treated as paid by a beneficiary.

**Line 6b.** Exempt foreign foundations must enter the amount of tax withheld at the source.

**Line 6d.** Enter the amount of any backup withholding erroneously withheld. Recipients of interest or dividend payments must generally certify their correct tax identification number to the bank or other payer on **Form W-9**, Request for Taxpayer Identification Number and Certification. If the payer does not get this information, it must withhold part of the payments as "backup withholding." If the organization files Form 990-PF and was subject to erroneous backup withholding because the payer did not realize the payee was an exempt organization and not subject to this withholding, the organization can claim credit for the amount withheld.

**Line 8—Penalty.** Enter any penalty for underpayment of estimated tax shown on Form 2220. Form 2220 is used by both corporations and trusts.

**Line 9—Tax due.** Domestic foundations should see General Instruction P.

All foreign organizations should enclose a check or money order (in U.S. funds), made payable to the Internal Revenue Service, with Form 990-PF.

## Part VII-A—Statements Regarding Activities

Each question in this section must be answered "Yes," "No," or "N/A" (not applicable).

**Line 1.** Political purposes include, but are not limited to: directly or indirectly accepting contributions or making payments to influence the selection, nomination, election, or appointment of any individual to any Federal, state, or local public office or office in a political organization, or the election of presidential or vice presidential electors, whether or not the individual or electors are actually selected, nominated, elected, or appointed.

**Line 3.** A "conformed" copy of an organizational document is one that agrees with the original document and all its amendments. If copies are not signed, attach a written declaration signed by an officer authorized to sign for the organization, certifying that they are complete and accurate copies of the original documents.

**Line 6.** For a private foundation to be exempt from income tax, its governing instrument must include provisions that require it to act or refrain from acting so as not to engage in an act of self-dealing (section 4941), or subject the foundation to the taxes imposed by sections 4942 (failure to distribute income), 4943 (excess business holdings), 4944 (investments which jeopardize charitable purpose), and 4945 (taxable expenditures). A private foundation may satisfy these section 508(e) requirements either by express language in its governing instrument or by application of state law that imposes the above requirements on the foundation or treats these requirements as being contained in the governing instrument. If an organization claims it satisfies the requirements of section 508(e) by operation of state law, the provisions of state law must effectively impose the section 508(e) requirements on the organization. See Rev. Rul. 75-38, 1975-1 C.B.161, for a list of states with legislation that satisfies the requirements of section 508(e).

However, if the state law does not apply to a governing instrument that contains mandatory directions conflicting with any of its requirements and the organization has such mandatory directions in its governing instrument, then the organization has not satisfied the requirements of section 508(e) by the operation of that legislation.

**Line 8a.** In the space provided list all states:

1. To which the organization reports in any way about its organization, assets, or activities; and

2. With which the organization has registered (or which it has otherwise notified in any manner) that it intends to be, or is, a charitable organization or that it is, or intends to be, a holder of property devoted to a charitable purpose.

Attach a separate list if you need more space.

**Line 9.** If the organization claims status as a private operating foundation for 1997 and, in fact, meets the private operating foundation requirements for that year (as reflected in Part XIV), any excess distributions carryover from 1996 or prior years may not be carried over to 1997 or any year after 1997 in which it does not meet the private operating foundation requirements. See the instructions for Part XIII.

**Line 10—Substantial contributors.** If you answer “Yes,” attach a schedule listing the names and addresses of all persons who became substantial contributors during the year.

The term **substantial contributor** means any person whose contributions or bequests during the current tax year and prior tax years total more than \$5,000 and are more than 2% of the total contributions and bequests received by the foundation from its creation through the close of its tax year. In the case of a trust, the term “substantial contributor” also means the creator of the trust (section 507(d)(2)).

The term **person** includes individuals, trusts, estates, partnerships, associations, corporations, and other exempt organizations.

Each contribution or bequest must be valued at fair market value on the date it was received.

Any person who is a substantial contributor on any date will remain a substantial contributor for all later periods.

However, a person will cease to be a substantial contributor with respect to any private foundation if:

1. The person, and all related persons, made no contributions to the foundation during the 10-year period ending with the close of the taxable year;
2. The person, or any related person, was never the foundation's manager during this 10-year period; and
3. The aggregate contributions made by the person, and related persons, are determined by the IRS to be insignificant compared to the aggregate amount of contributions to the foundation by any other person and the appreciated value of contributions held by the foundation.

The term **related person** includes any other person who would be a disqualified person because of a relationship with the substantial contributor (section 4946). When the substantial contributor is a corporation, the term also includes any officer or director of a corporation. The term “substantial contributor,” does not include public charities (organizations described in section 509(a)(1), (2), or (3)).

**Line 13—Section 4947(a)(1) trusts.** Section 4947(a)(1) nonexempt charitable trusts that file Form 990-PF instead of Form 1041 must complete this line. The trust should include exempt-interest dividends received from a mutual fund or other regulated investment company as well as tax-exempt interest received directly.

## Part VII-B—Activities for Which Form 4720 May Be Required

The purpose of these questions is to determine if there is any initial excise tax

due under sections 4941–4945, and section 4955. If the answer is “Yes” to question 1b, 1c, 2b, 3b, 4a, 4b, or 5b, complete and file Form 4720, unless an exception applies.

**Line 1—Self-dealing.** The activities listed in 1a(1)–(6) are considered self-dealing under section 4941 unless one of the exceptions applies. See Pub. 578.

The terms “disqualified person” and “foundation manager” are defined in General Instruction C.

**Line 1b.** If you answered “Yes” to any of the questions in 1a, you should answer “Yes” to 1b unless all of the acts engaged in were “excepted” acts. Excepted acts are described in Regulations sections 53.4941(d)-3 and 4 and appear in Notices published in the Internal Revenue Bulletin, relating to disaster assistance.

**Line 2—Taxes on failure to distribute income.** If you answer “No” to question 2b, attach a statement explaining:

1. All the facts regarding the incorrect valuation of assets, and
2. The actions taken (or planned) to comply with section 4942(a)(2)(B), (C), and (D) and the related regulations.

**Line 3a.** A private foundation is not treated as having excess business holdings in any enterprise if, together with related foundations, it owns 2% or less of the voting stock and 2% or less in value of all outstanding shares of all classes of stock. (See “disqualified person” under General Instruction C.) A similar exception applies to a beneficial or profits interest in any business enterprise that is a trust or partnership.

For more information about excess business holdings, see Pub. 578 and the instructions for Form 4720.

**Line 4—Taxes on investments that jeopardize charitable purposes.** In general, an investment that jeopardizes any of the charitable purposes of a private foundation is one for which a foundation manager did not exercise ordinary business care to provide for the long- and short-term financial needs of the foundation in carrying out its charitable purposes. For more details, see Pub. 578 and the regulations under section 4944.

**Line 5—Taxes on taxable expenditures and political expenditures.** In general, payments made for the activities described on lines 5a(1)–(5) are taxable expenditures. See Pub. 578 for exceptions.

A grant by a private foundation to a public charity is not a taxable expenditure if the private foundation does not earmark the grant for any of the activities described in lines 5a(1)–(5), and there is

no oral or written agreement by which the grantor foundation may cause the grantee to engage in any such prohibited activity or to select the grant recipient.

Grants made to exempt operating foundations (as defined in section 4940(d)(2) and the instructions to Part VI) are not subject to the expenditure responsibility provisions of section 4945.

Under section 4955, a section 501(c)(3) organization must pay an excise tax for any amount paid or incurred on behalf of or opposing any candidate for public office. The organization must pay an additional excise tax if it does not correct the expenditure timely.

A manager of a section 501(c)(3) organization who knowingly agrees to a political expenditure must pay an excise tax unless the agreement is not willful and there is reasonable cause. A manager who does not agree to a correction of the political expenditure may have to pay an additional excise tax.

A section 501(c)(3) organization will lose its exempt status if it engages in political activity.

A political expenditure that is treated as an expenditure under section 4955 is not treated as a taxable expenditure under section 4945.

For purposes of the section 4955 tax, when an organization promotes a candidate for public office (or is used or controlled by a candidate or prospective candidate), amounts paid or incurred for the following purposes are political expenditures:

1. Remuneration to the individual (or candidate or prospective candidate) for speeches or other services.
2. Travel expenses of the individual.
3. Expenses of conducting polls, surveys, or other studies, or preparing papers or other material for use by the individual.
4. Expenses of advertising, publicity, and fundraising for such individual.
5. Any other expense that has the primary effect of promoting public recognition or otherwise primarily accruing to the benefit of the individual.

See the regulations under section 4945 for more information.

**Line 5b.** If you answered “Yes” to any of the questions in 5a, you should answer “Yes” to 5b unless all of the transactions engaged in were “excepted” transactions. Excepted transactions are described in Regulations section 53.4945 and appear in notices published in the Internal Revenue Bulletin, relating to disaster assistance.

## Part VIII—Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

**Line 1—List of officers, directors, trustees, etc.** List the names, addresses, and other information requested for those who were officers, directors, and trustees (or any person who had responsibilities or powers similar to those of officers, directors, or trustees) of the foundation at any time during the year. Each must be listed whether or not they receive any compensation from the foundation. Give the preferred address at which officers, etc., want the Internal Revenue Service to contact them. Enter zero in columns (c), (d), and (e) if none was paid. Attach a schedule if more space is needed.

Show all forms of compensation earned by each listed officer, etc. In addition to completing Part VIII, if you want to explain the compensation of one or more officers, directors, and trustees, you may provide an attachment describing the person's entire 1997 compensation package(s).

**Column (c).** Enter salary, fees, bonuses, and severance payments received by each person listed. Include current year payments of amounts reported or reportable as deferred compensation in any prior year.

**Column (d).** Include all forms of deferred compensation and future severance payments (whether or not funded or vested, and whether or not the deferred compensation plan is a qualified plan under section 401(a)). Include payments to welfare benefit plans (employee welfare benefit plans covered by Part I of Title 1 of ERISA, providing benefits such as medical, dental, life insurance, apprenticeship and training, scholarship funds, severance pay, disability, etc.) on behalf of the officers, etc. Reasonable estimates may be used if precise cost figures are not readily available.

Unless the amounts are reported in column (c), report, as deferred compensation in column (d), salaries and other compensation earned during the period covered by the return, but not yet paid by the date the foundation files its return.

**Column (e).** Enter both taxable and nontaxable fringe benefits, expense account and other allowances (other than de minimis fringe benefits described in section 132(e)). See Pub. 525 for more information. Examples of allowances include amounts for which the recipient did not account to the organization or allowances that were more than the payee spent on serving the organization. Include payments made in connection with indemnification arrangements, the

value of the personal use of housing, automobiles, or other assets owned or leased by the organization (or provided for the organization's use without charge).

**Line 2—Compensation of five highest-paid employees.** Fill in the information requested for the five employees (if any) who received the greatest amount of annual compensation over \$50,000. Do not include employees listed on line 1. Also enter the total number of other employees who received more than \$50,000 in annual compensation.

Show each listed employee's entire compensation package for the period covered by the return. Include all forms of compensation that each listed employee received in return for his or her services. See the line 1 instructions for more details on includible compensation.

**Line 3—Five highest-paid independent contractors for professional services.** Fill in the information requested for the five highest-paid independent contractors (if any), whether individuals or professional service corporations or associations, to whom the organization paid more than \$50,000 for the year to perform personal services of a professional nature for the organization (such as attorneys, accountants, and doctors). Also show the total number of all other independent contractors who received more than \$50,000 for the year for performing professional services.

## Part IX-A—Summary of Direct Charitable Activities

List the foundation's four largest programs as measured by the direct and indirect expenses attributable to each that consist of the direct active conduct of charitable activities. Whether any expenditure is for the direct active conduct of a charitable activity is determined, generally, by the definitions and special rules of section 4942(j)(3) and the related regulations, which define a private operating foundation.

Except for significant involvement grant programs, described below, do not include in Part IX-A any grants or expenses attributable to administering grant programs, such as reviewing grant applications, interviewing or testing applicants, selecting grantees, and reviewing reports relating to the use of the grant funds.

Include scholarships, grants, or other payments to individuals as part of an active program in which the foundation maintains some **significant involvement**. Related administrative expenses should also be included. Examples of active programs and definitions of the term "significant involvement" are provided in Regulations sections 53.4942(b)-1(b)(2) and 53.4942(b)-1(d).

**Do not** include any program-related investments (reportable in Part IX-B) in the description and expense totals, but be sure to include qualified set-asides for direct charitable activities, reported on line 3 of Part XII. Also, include in Part IX-A, amounts paid or set aside to acquire assets used in the direct active conduct of charitable activities.

Expenditures for direct charitable activities include, among others, amounts paid or set aside to:

- Acquire or maintain the operating assets of a museum, library, or historic site or to operate the facility.
  - Provide goods, shelter, or clothing to indigents or disaster victims if the foundation maintains some significant involvement in the activity rather than merely making grants to the recipients.
  - Conduct educational conferences and seminars.
  - Operate a home for the elderly or disabled.
  - Conduct scientific, historic, public policy, or other research with significance beyond the foundation's grant program that does not constitute a prohibited attempt to influence legislation.
  - Publish and disseminate the results of such research, reports of educational conferences, or similar educational material.
  - Support the service of foundation staff on boards or advisory committees of other charitable organizations or on public commissions or task forces.
  - Provide technical advice or assistance to a governmental body, a governmental committee, or subdivision of either, in response to a written request by the governmental body, committee, or subdivision.
  - Conduct performing arts performances.
  - Provide technical assistance to grantees and other charitable organizations. This assistance must have significance beyond the purposes of the grants made to the grantees and must not consist merely of monitoring or advising the grantees in their use of the grant funds. Technical assistance involves the furnishing of expert advice and related assistance regarding, for example:
    1. Compliance with governmental regulations;
    2. Reducing operating costs or increasing program accomplishments;
    3. Fundraising methods; and
    4. Maintaining complete and accurate financial records.
- Report both direct and indirect expenses in the expense totals. Direct expenses are those that can be specifically identified as connected with a particular activity. These include, among others, compensation and travel expenses of employees and officers

directly engaged in an activity, the cost of materials and supplies utilized in conducting the activity, and fees paid to outside firms and individuals in connection with a specific activity.

Indirect (overhead) expenses are those that are not specifically identified as connected with a particular activity but that relate to the direct costs incurred in conducting the activity. Examples of indirect expenses include: occupancy expenses; supervisory and clerical compensation; repair, rental, and maintenance of equipment; expenses of other departments or cost centers (such as accounting, personnel, and payroll departments or units) that service the department or function that incurs the direct expenses of conducting an activity; and other applicable general and administrative expenses, including the compensation of top management, to the extent reasonably allocable to a particular activity.

No specific method of allocation is required. The method used, however, must be reasonable and must be used consistently.

Examples of acceptable allocation methods include:

- Compensation that is allocated on a time basis.
- Employee benefits that are allocated on the basis of direct salary expenses.
- Travel, conference, and meeting expenses that are charged directly to the activity that incurred the expense.
- Occupancy expenses that are allocated on a space-utilized basis.
- Other indirect expenses that are allocated on the basis of direct salary expenses or total direct expenses.

## Part IX-B—Summary of Program-Related Investments

Section 4944(c) and corresponding regulations define a program-related investment as one that is made primarily to accomplish a charitable purpose of the foundation and no substantial purpose of which is to produce investment income or a capital gain from the sale of the investment. Examples of program-related investments include educational loans to individuals and low-interest loans to other section 501(c)(3) organizations.

On lines 1 and 2, list the two largest program-related investments made by the foundation in 1997, whether or not the investments were still held by the foundation at the end of the year. Combine all other program-related investments on line 3 and attach a schedule that lists the individual investments or groups of investments included. Include only those investments that were reported in Part XII, line 1b, for

the current year. Do not include any investments made in any prior year even if they were still held by the foundation at the end of 1997.

Investments consisting of loans to individuals (such as educational loans) are not required to be listed separately but may be grouped with other program-related investments of the same type. Loans to other section 501(c)(3) organizations and all other types of program-related investments must be listed separately on lines 1 through 3 or on an attachment. The total of lines 1 through 3 in the Amount column must equal the amount reported on line 1b of Part XII.

## Part X—Minimum Investment Return

All domestic foundations must complete Part X. Foreign foundations that checked box D2 on page 1 do not have to complete Part X unless claiming status as a private operating foundation.

Private operating foundations, described in sections 4942(j)(3) or 4942(j)(5), must complete Part X in order to complete Part XIV.

A private foundation that is not a private operating foundation must pay out, as qualifying distributions, its minimum investment return. This is generally 5% of the total fair market value of its noncharitable assets, subject to further adjustments as explained in the instructions for Part XI. The amount of this minimum investment return is figured in Part X and is used in Part XI to figure the amount that is required to be paid out (the distributable amount).

In figuring the minimum investment return, include only those assets that are not actually used or held for use by the organization for a charitable, educational, or other similar function that contributed to the charitable status of the foundation. Cash on hand and on deposit is considered used or held for use for charitable purposes **only** to the extent of the reasonable cash balances reported in Part X, line 4. See the instructions for lines 1b and 4 below.

Assets that are held for the production of income or for investment are not considered to be used directly for charitable functions even though the income from the assets is used for the charitable functions. It is a factual question whether an asset is held for the production of income or for investment rather than used or held for use directly by the foundation for charitable purposes. For example, an office building that is used to provide offices for employees engaged in managing endowment funds for the foundation is not considered an asset used for charitable purposes. However, when property is used both for

charitable and other purposes, the property is considered used entirely for charitable purposes if 95% or more of its total use is for that purpose. If less than 95% of its total use is for charitable purposes, a reasonable allocation must be made between charitable and noncharitable use.

Certain assets are excluded entirely from the computation of minimum investment return. These include pledges of grants and contributions to be received in the future and future interests in estates and trusts. See Pub. 578, chapter VII, for more details.

**Line 1a—Average monthly fair market value of securities.** If market quotations are readily available, a foundation may use any reasonable method to determine the average monthly fair market value of securities such as common and preferred stock, bonds, and mutual fund shares, as long as that method is consistently used. For example, a value for a particular month might be determined by the closing price on the first or last trading days of the month or an average of the closing prices on the first and last trading days of the month. Market quotations are considered readily available if a security is **any** of the following:

- Listed on the New York or American stock exchange or any city or regional exchange in which quotations appear on a daily basis, including foreign securities listed on a recognized foreign national or regional exchange.
- Regularly traded in the national or regional over-the-counter market for which published quotations are available.
- Locally traded, for which quotations can be readily obtained from established brokerage firms.

If securities are held in trust for, or on behalf of, a foundation by a bank or other financial institution that values those securities periodically using a computer pricing system, a foundation may use that system to determine the value of the securities. The system must be acceptable to the IRS for Federal estate tax purposes.

The foundation may reduce the fair market value of securities only to the extent that it can establish that the securities could only be liquidated in a reasonable period of time at a price less than the fair market value because of:

- The size of the block of the securities;
- The fact that the securities held are securities in a closely held corporation; or
- The fact that the sale of the securities would result in a forced or distress sale.

Any reduction in value allowed under these provisions may not be more than 10% of the fair market value (determined without regard to any reduction in value).

Also, see Regulations sections 53.4942(a)-2(c)(4)(i)(b), (c), and (iv)(a).

**Line 1b—Average of monthly cash balances.** Compute cash balances on a monthly basis by averaging the amount of cash on hand on the first and last days of each month. Include all cash balances and amounts that may be used for charitable purposes (see line 4 below) or set aside and taken as a qualifying distribution (see Part XII).

**Line 1c—Fair market value of all other assets.** The fair market value of assets other than securities is determined annually except as described below. The valuation may be made by private foundation employees or by any other person even if that person is a disqualified person. If the IRS accepts the valuation, it is valid only for the tax year for which it is made. A new valuation is required for the next tax year.

A written, certified, and independent appraisal of the fair market value of any real estate, including any improvements, may be determined on a 5-year basis by a qualified person.

The person may not be a disqualified person with respect to the private foundation or an employee of the foundation.

Commonly accepted valuation methods must be used in making the appraisal. A valuation based on acceptable methods of valuing property for Federal estate tax purposes will be considered acceptable.

The appraisal must include a closing statement that, in the appraiser's opinion, the appraised assets were valued according to valuation principles regularly employed in making appraisals of such property, using all reasonable valuation methods. The foundation must keep a copy of the independent appraisal for its records. If a valuation is reasonable, the foundation may use it for the tax year for which the valuation is made and for each of the 4 following tax years.

Any valuation of real estate by a certified independent appraisal may be replaced during the 5-year period by a subsequent 5-year certified independent appraisal or by an annual valuation as described above. The most recent valuation should be used to compute the foundation's minimum investment return.

If the valuation is made according to the above rules, the IRS will continue to accept it during the 5-year period for which it applies even if the actual fair market value of the property changes during the period.

**Valuation date.** An asset required to be valued annually may be valued as of any day in the private foundation's tax year, provided the foundation values the asset as of that date in all tax years. However, a valuation of real estate determined on a 5-year basis by a

certified, independent appraisal may be made as of any day in the first tax year of the foundation to which the valuation applies.

**Assets held for less than a tax year.**

To determine the value of an asset held less than 1 tax year, divide the number of days the foundation held the asset by the number of days in the tax year. Multiply the result by the fair market value of the asset.

**Line 1e—Reduction claimed for blockage or other factors.** If the fair market value of any securities, real estate holdings, or other assets reported on lines 1a and 1c reflects a blockage discount, marketability discount, or other reduction from full fair market value because of the size of the asset holding or because of any other factor, enter on line 1e the aggregate amount of the discounts claimed. Attach an explanation that includes the following information for each asset or group of assets involved:

1. A description of the asset or asset group (e.g., 20,000 shares of XYZ, Inc., common stock);
2. For securities, the percentage of the total issued and outstanding securities of the same class that is represented by the foundation's holding;
3. The fair market value of the asset or asset group before any claimed blockage discount or other reduction;
4. The amount of the discount claimed; and
5. A statement that explains why the claimed discount is appropriate in valuing the asset or group of assets for section 4942 purposes.

In the case of securities, there are certain limitations on the size of the reduction in value that can be claimed. See the discussion of reduction of fair market value of securities in the instructions for Part X, line 1a.

**Line 2—Acquisition indebtedness.**

Enter the total acquisition indebtedness that applies to assets included on line 1. For details, see section 514(c)(1).

**Line 4—Cash deemed held for charitable activities.** Foundations may exclude from the assets used in the minimum investment return computation the reasonable cash balances necessary to cover current administrative expenses and other normal and current disbursements directly connected with the charitable, educational, or other similar activities. The amount of cash that may be excluded is generally 1½% of the fair market value of all assets (minus any acquisition indebtedness) as computed in Part X, line 3. However, if under the facts and circumstances an amount larger than the deemed amount is necessary to pay expenses and disbursements, then you may enter the larger amount instead of 1½% of the fair market value on line 4. If

you use a larger amount, attach an explanation.

**Line 6—Short tax periods.** If the foundation's tax period is less than 12 months, determine the applicable percentage by dividing the number of days in the short tax period by 365 (or 366 in a leap year). Multiply the result by 5%. Then multiply the modified percentage by the amount on line 5 and enter the result on line 6.

## Part XI—Distributable Amount

If the organization is claiming status as a private operating foundation described in section 4942(j)(3) or (j)(5) or if it is a foreign foundation that checked box D2 on page 1, check the box in the heading for Part XI. You do not need to complete this part. See the Part XIV instructions for more details on private operating foundations.

Section 4942(j)(5) organizations are classified as private operating foundations for purposes of section 4942 only if they meet the requirements of Regulations section 53.4942(b)-1(a)(2).

The distributable amount for 1997 is the amount that the foundation must distribute by the end of 1998 as qualifying distributions to avoid the 15% tax on the undistributed portion.

**Line 4a.** Enter the total of recoveries of amounts treated as qualifying distributions for any year under section 4942(g). Include recoveries of part or all (as applicable) of grants previously made; proceeds from the sale or other disposition of property whose cost was treated as a qualifying distribution when the property was acquired; and any amount set aside under section 4942(g) to the extent it is determined that this amount is not necessary for the purposes of the set-aside.

**Line 4b—Income distributions from section 4947(a)(2) trusts.** The income portion of distributions from split-interest trusts on amounts placed in trust after May 26, 1969, must be **added** to the distributable amount, subject to the limitation of Regulations section 53.4942(a)-2(b)(2)(iii).

A "split-interest trust" is defined in section 4947(a)(2) as a trust that is not exempt from tax under section 501(a), not all of the unexpired interests of which are devoted to charitable, religious, educational, and like purposes, and that has amounts in trust for which a charitable contributions deduction has been allowed.

If the foundation receives distributions that include amounts placed in trust before May 27, 1969, and amounts placed in trust after May 26, 1969, these distributions must be allocated between those amounts to determine the extent to which the distributions are included in the foundation's distributable amount.

**Line 6—Deduction from distributable amount.** If the foundation was organized before May 27, 1969, and its governing instrument or any other instrument continues to require the accumulation of income after a judicial proceeding to reform the instrument has terminated, then the amount of the income required to be accumulated must be **subtracted** from the distributable amount beginning with the first tax year after the tax year in which the judicial proceeding was terminated. (See the instructions for Part VII-A, line 6.)

## Part XII—Qualifying Distributions

“Qualifying distributions” are amounts spent or set aside for religious, educational, or similar charitable purposes. The total amount of qualifying distributions for any year is used to reduce the distributable amount for specified years to arrive at the undistributed income (if any) for those years.

**Line 1a—Borrowed funds.** If the foundation borrowed money in a tax year beginning before January 1, 1970, or later borrows money under a written commitment binding on December 31, 1969, the foundation may elect to treat any repayments of the loan principal after December 31, 1969, as qualifying distributions at the time of repayment, rather than at the earlier time that the borrowed funds were actually distributed, only if:

1. The money is used to make expenditures for a charitable or similar purpose; and
2. Repayment on the loan did not start until a year beginning after 1969.

On these loans, deduct any interest payment from gross income to compute adjusted net income in the year paid.

To make this election, attach a statement to Form 990-PF for the first tax year beginning after 1969 in which a repayment of loan principal is made and for each tax year after that in which any repayment of loan principal is made. The statement should show:

- The lender's name and address.
- The amount borrowed.
- The specific use of the borrowed funds.
- The private foundation's election to treat repayments of loan principal as qualifying distributions.

If this provision applies, add the total of the repayments during the year to the amount from Part I, column (d), line 26. Enter this total in Part XII, line 1a. If it does not apply, enter the total from Part I, column (d), line 26.

**Line 1b—Program-related investments.** Enter the total of the Amount column in Part IX-B. See the Part IX-B instructions

for the definition of program-related investments.

**Line 3—Amounts set aside.** Amounts set aside may be treated as qualifying distributions only if the private foundation establishes to the satisfaction of the IRS that the amount will be paid for the specific project within 60 months from the date of the first set-aside and meets **1** or **2** below.

1. The project can be better accomplished by a set-aside than by the immediate payment of funds (suitability test), **or**
2. The foundation meets the requirements of section 4942(g)(2)(B)(ii) (cash distribution test).

For a set-aside under **1** above, the organization must apply for IRS approval by the end of the tax year in which the amount is set aside. Write to the Internal Revenue Service, Assistant Commissioner (Employee Plans/Exempt Organizations), CP:E:EO, 1111 Constitution Avenue, NW, Washington, DC 20224.

The application for approval must give **all** of the following information:

- The nature and purposes of the specific project and the amount of the set-aside for which approval is requested;
- The amounts and approximate dates of any planned additions to the set-aside after its initial establishment;
- The reasons why the project can be better accomplished by the set-aside than by the immediate payment of funds;
- A detailed description of the project, including estimated costs, sources of any future funds expected to be used for completion of the project, and the location or locations (general or specific) of any physical facilities to be acquired or constructed as part of the project; and
- A statement of an appropriate foundation manager that the amounts set aside will actually be paid for the specific project within a specified period of time ending within 60 months after the date of the first set-aside; or a statement explaining why the period for paying the amount set aside should be extended and indicating the extension of time requested. (Include in this statement the reason why the proposed project could not be divided into two or more projects covering periods of no more than 60 months each.)

For any set-aside under **2** above, the organization must attach a schedule to its annual information return showing how the requirements are met. A schedule is required for the year of the set-aside and for each subsequent year until the set-aside amount has been distributed. See Regulations section 53.4942(a)-3(b)(7)(ii) for specific requirements.

**Line 5—Reduced tax on investment income under section 4940(e).** If the organization does not qualify for the 1% tax under section 4940(e), enter zero. See Parts V and VI of the instructions.

## Part XIII—Undistributed Income

If you checked box D2 on page 1, **do not** fill in this part.

If the organization is a private operating foundation for any of the years shown in Part XIII, do not complete the portions of Part XIII that apply to those years. If there are excess qualifying distributions for any tax year, do not carry them over to a year in which the organization is a private operating foundation or to any later year. For example, if a foundation made excess qualifying distributions in 1995 and became a private operating foundation in 1997, the excess qualifying distributions from 1995 could be applied against the distributable amount for 1996 but not to any year after 1996.

The purpose of this part is to enable the foundation to comply with the rules for applying its qualifying distributions for the year 1997. In applying the qualifying distributions, there are three basic steps.

1. Reduce any undistributed income for 1996 (but not less than zero).
2. The organization may use any part or all remaining qualifying distributions for 1997 to satisfy elections. For example, if undistributed income remained for any year before 1996, it could be reduced to zero or, if the foundation wished, the distributions could be treated as distributions out of corpus.

3. If no elections are involved, apply remaining qualifying distributions to the 1997 distributable amount on line 4d. If the remaining qualifying distributions are greater than the 1997 distributable amount, the excess is treated as a distribution out of corpus on line 4e.

If for any reason the 1997 qualifying distributions do not reduce any 1996 undistributed income to zero, the amount not distributed is subject to a 15% tax. If the 1996 income remains undistributed at the end of 1998, it could be subject again to the 15% tax. See section 4942(b) for the circumstances under which the second-tier tax could be imposed.

**Line 1—Distributable amount.** Enter the distributable amount for 1997 from Part XI, line 7.

**Line 2—Undistributed income.** Enter the distributable amount for 1996 and amounts for earlier years that remained undistributed at the beginning of the 1997 tax year.

**Line 2b.** Enter the amount of undistributed income for years before 1996.

**Line 3—Excess distributions carryover to 1997.** If the foundation has made excess distributions out of corpus in prior years, which have not been applied in any year, enter the amount for each year. Do not enter an amount for a particular year if the organization was a private operating foundation for any later year.

**Lines 3a through 3e.** Enter the amount of any excess distribution made on the line for each year listed. Do not include any amount that was applied against the distributable amount of an earlier year or that was already used to meet pass-through distribution requirements. (See the instructions for line 7.)

**Line 3f.** This amount can be applied in 1997.

**Line 4—Qualifying distributions.** Enter the total amount of qualifying distributions made in 1997 from Part XII, line 4. The total of the amounts applied on lines 4a through 4e is equal to the qualifying distributions made in 1997.

**Line 4a.** The qualifying distributions for 1997 are first used to reduce any undistributed income remaining from 1996. Enter only enough of the 1997 qualifying distributions to reduce the 1996 undistributed income to zero.

**Lines 4b and 4c.** If there are any 1997 qualifying distributions remaining after reducing the 1996 undistributed income to zero, one or more elections can be made under Regulations section 53.4942(a)-3(d)(2) to apply all or part of the remaining qualifying distributions to any undistributed income remaining from years before 1996 or to apply to corpus. To make these elections, the organization must file a statement with the IRS or attach a statement, as described in the above regulations section, to Form 990-PF. An election made by filing a separate statement with the IRS must be made within the year for which the election is made. Otherwise, attach a statement to the Form 990-PF filed for the year the election was made. If the organization elected to apply all or part of the remaining amount to the undistributed income remaining from years before 1996, enter the amount on line 4b. If the organization elected to treat those qualifying distributions as a distribution out of corpus, enter the amount on line 4c.

**Caution:** *Entering an amount on line 4b or 4c without submitting the required statement is not considered a valid election.*

**Line 4d.** Treat as a distribution of the distributable amount for 1997 any qualifying distributions for 1997 that remain after reducing the 1996 undistributed income to zero and after electing to treat any part of the remaining distributions as a distribution out of corpus or as a distribution of a prior year's undistributed income. Enter only enough

of the remaining 1997 qualifying distributions to reduce the 1997 distributable amount to zero.

**Line 4e.** Any 1997 qualifying distributions remaining after reducing the 1997 distributable amount to zero should be treated as an excess distribution out of corpus. This amount may be carried over and applied to later years.

**Line 5—Excess qualifying distributions carryover applied to 1997.** Enter any excess qualifying distributions from line 3, which were applied to 1997, in both the Corpus column and the 1997 column. Apply the oldest excess qualifying distributions first. Thus, the organization will apply any excess qualifying distributions carried forward from 1992 before those from later years.

**Line 6a.** Add lines 3f, 4c, and 4e. Subtract line 5 from the total. Enter the net total in the Corpus column.

**Line 6c.** Enter only the undistributed income from 1995 and prior years for which either a notice of deficiency under section 6212(a) has been mailed for the section 4942(a) first-tier tax, or on which the first-tier tax has been assessed because the organization filed a Form 4720 for a tax year that began before 1996.

**Lines 6d and 6e.** These amounts are taxable under the provisions of section 4942(a), except for any part that is due solely to misvaluation of assets to which the provisions of section 4942(a)(2) are being applied (see Part VII-B, line 2b). Report the taxable amount on Form 4720. If the exception applies, attach an explanation.

**Line 6f.** In the 1997 column, enter the amount by which line 1 is more than the total of lines 4d and 5. This is the undistributed income for 1997. The organization must distribute the amount shown by the end of its 1998 tax year so that it will not be liable for the tax on undistributed income.

**Line 7—Distributions out of corpus for 1997 pass-through distributions.**

1. If the foundation is the donee and receives a contribution from another private foundation, the donor foundation may treat the contribution as a qualifying distribution only if the donee foundation makes a distribution equal to the full amount of the contribution and the distribution is a qualifying distribution that is treated as a distribution of corpus. The donee foundation must, no later than the close of the first tax year after the tax year in which it receives the contributions, distribute an amount equal in value to the contributions received in the prior tax year and have no remaining undistributed income for the prior year. For example, if private foundation X received \$1,000 in tax year 1996 from foundation Y, foundation X would have to distribute the \$1,000 as a qualifying distribution out of

corpus by the end of 1997 and have no remaining undistributed income for 1996.

2. If a private foundation receives a contribution from an individual or a corporation and the individual is seeking the 50% contribution base limit on deductions for the tax year (or the individual or corporation is not applying the limit imposed on deductions for contributions to the foundation of capital gain property), the foundation must comply with certain distribution requirements.

By the 15th day of the 3rd month after the end of the tax year in which the foundation received the contributions, the donee foundation must distribute as qualifying distributions out of corpus:

a. An amount equal to 100% of all contributions received during the year in order for the individual contributor to receive the benefit of the 50% limit on deductions, and

b. Distribute all contributions of property only so that the individual or corporation making the contribution is not subject to the section 170(e)(1)(B)(ii) limitations.

If the organization is applying excess distributions from prior years (i.e., any part of the amount in Part XIII, line 3f) to satisfy the distribution requirements of section 170(b)(1)(E) or 4942(g)(3), it must make the election under Regulations section 53.4942(a)-3(c)(2). Also, see Regulations section 1.170A-9(g)(2).

Enter on line 7 the total distributions out of corpus made to satisfy the restrictions on amounts received from donors described above.

**Line 8—Outdated excess distributions carryover.** Because of the 5-year carryover limitation under section 4942(i)(2), the organization must reduce any excess distributions carryover by any amounts from 1992 that were not applied in 1997.

**Line 9—Excess distributions carryover to 1998.** Enter the amount by which line 6a is more than the total of lines 7 and 8. This is the amount the organization may apply to 1998 and following years. Line 9 can never be less than zero.

**Line 10—Analysis of line 9.** In the space provided for each year, enter the amount of excess distributions carryover from that year that has not been applied as of the end of the 1997 tax year. If there is an amount on the line for 1993, it must be applied by the end of the 1998 tax year since the 5-year carryover period for 1993 ends in 1998.

## Part XIV—Private Operating Foundations

All organizations that claim status as private operating foundations under section 4942(j)(3) or (5) for 1997 must complete Part XIV.

For purposes of section 4942 only, certain elderly care facilities may be classified as private operating foundations. To be so classified, they must be operated and maintained for the principal purpose explained in section 4942(j)(5) and also meet the endowment test described below. If the foundation is a section 4942(j)(5) organization, complete only lines 1a, 1b, 2c, 2d, 2e, and 3b. Enter "N/A" on all other lines in the Total column for Part XIV.

The term "private operating foundation" means any private foundation that spends at least 85% of the smaller of its adjusted net income or its minimum investment return directly for the active conduct of the exempt purpose or functions for which the foundation is organized and operated (the Income Test) and that also meets one of the three tests below.

**1. Assets test.** 65% or more of the foundation's assets are devoted directly to those activities or functionally related businesses, or both. Or 65% or more of the foundation's assets are stock of a corporation that is controlled by the foundation, and substantially all of the assets of the corporation are devoted to those activities or functionally related businesses.

**2. Endowment test.** The foundation normally makes qualifying distributions directly for the active conduct of the exempt purpose or functions for which it is organized and operated in an amount that is two-thirds or more of its minimum investment return.

**3. Support test.** The foundation normally receives 85% or more of its support (other than gross investment income as defined in section 509(e)) from the public and from five or more exempt organizations that are not described in section 4946(a)(1)(H) with respect to each other or the recipient foundation. Not more than 25% of the support (other than gross investment income) normally may be received from any one of the exempt organizations and not more than one-half of the support normally may be received from gross investment income.

See regulations under section 4942 for the meaning of "directly for the active conduct" of exempt activities for purposes of these tests.

A foundation may meet the income test and either the assets, endowment, or support test by satisfying the tests for any 3 years during a 4-year period consisting of the tax year in question and the 3 immediately preceding tax years. It may also meet the tests based on the total of all related amounts of income or assets held, received, or distributed during that 4-year period. A foundation may not use one method for satisfying the income test and another for satisfying one of the three alternative tests. Thus, if a foundation meets the income test on the

3-out-of-4-year basis for a particular tax year, it may not use the 4-year aggregation method for meeting one of the three alternative tests for that same year.

In completing line 3c(3) of Part XIV under the aggregation method, the largest amount of support from an exempt organization will be based on the total amount received for the 4-year period from any one exempt organization.

A new private foundation must use the aggregation method to satisfy the tests for its first tax year in order to be treated as a private operating foundation from the beginning of that year. It must continue to use the aggregation method for its 2nd and 3rd tax years to maintain its status for those years.

## Part XV—Supplementary Information

• Complete this part only if the foundation had assets of \$5,000 or more at any time during the year.

• This part does not apply to a foreign foundation that during its entire period of existence received substantially all (85% or more) of its support (other than gross investment income) from sources outside the United States.

**Line 2.** In the space provided (or in an attachment, if necessary), furnish the required information about the organization's grant, scholarship, fellowship, loan, etc., programs. In addition to restrictions or limitations on awards by geographical areas, charitable fields, and kinds of recipients, indicate any specific dollar limitations or other restrictions applicable to each type of award the organization makes. This information benefits the grant seeker and the foundation. The grant seekers will be aware of the grant eligibility requirements and the foundation should receive only applications that adhere to these grant application requirements.

If the foundation only makes contributions to preselected charitable organizations and does not accept unsolicited applications for funds, check the box on line 2.

**Line 3.** If necessary, attach a schedule for lines 3a and 3b that lists separately amounts given to individuals and amounts given to organizations.

**Line 3a—Paid during year.** List all contributions, grants, etc., actually paid during the year, including grants or contributions that are not qualifying distributions under section 4942(g). Include current year payments of set-asides treated as qualifying distributions in the current tax year or any prior year.

**Line 3b—Approved for future payment.** List all contributions, grants, etc., approved during the year but not paid by

the end of the year, including the unpaid portion of any current year set-aside.

## Part XVI-A—Analysis of Income-Producing Activities

In Part XVI-A, analyze revenue items that are also entered in Part I, column (a), lines 3–11, and on line 5b. Contributions reported on lines 1 and 2 of Part I are not entered in Part XVI-A. For information on unrelated business income, see the Instructions for Form 990-T and Pub. 598.

**Columns (a) and (c).** In column (a), enter a business code, from the list in the Instructions for Form 990-T, to identify any income reported in column (b). In column (c), enter an exclusion code, from the list on page 27, to identify any income reported in column (d). If more than one exclusion code is applicable to a particular revenue item, select the lowest numbered exclusion code that applies. Also, if nontaxable revenues from several sources are reportable on the same line in column (d), use the exclusion code that applies to the largest revenue source.

**Columns (b), (d), and (e).** For amounts reported in Part XVI-A on lines 1–11, enter in column (b) any income earned that is unrelated business income (see section 512). In column (d), enter any income earned that is excluded from the computation of unrelated business taxable income by Code section 512, 513, or 514. In column (e), enter any related or exempt function income; that is, any income earned that is related to the organization's purpose or function which constitutes the basis for the organization's exemption.

Also enter in column (e) any income specifically excluded from gross income other than by Code section 512, 513, or 514, such as interest on state and local bonds that is excluded from tax by section 103. You must explain in Part XVI-B any amount shown in column (e).

**Comparing Part XVI-A with Part I.** The sum of the amounts entered on each line of lines 1–11 of columns (b), (d), and (e) of Part XVI-A should equal corresponding amounts entered on lines 3–11 of Part I, column (a), and on line 5b as shown below:

Amounts in Part XVI-A on line	Correspond to Amounts in Part I, column (a)
1a–g .....	11
2 .....	11
3 .....	3
4 .....	4
5 and 6 .....	5b (description column)
7 .....	11
8 .....	6
9 .....	11 minus any special event expenses included on lines 13 through 23 of Part I, column (a)
10 .....	10c
11a–e .....	11



**Line 1—Program service revenue.** On lines 1a–g, list each revenue-producing program service activity of the organization. For each program service activity listed, enter the gross revenue earned for each activity, as well as identifying business and exclusion codes, in the appropriate columns. For line 1g, enter amounts that are payments for services rendered to governmental units. Do not include governmental grants that are reportable on line 1 of Part I. Report the total of lines 1a–g on line 11 of Part I, along with any other income reportable on line 11.

Program services are mainly those activities that the reporting organization was created to conduct and that, along with any activities begun later, form the basis of the organization's current exemption from tax.

Program services can also include the organization's unrelated trade or business activities. Program service revenue also includes income from program-related investments (such as interest earned on scholarship loans) as defined in the instructions for Part IX-B.

**Line 11.** On lines 11a–e, list each "Other revenue" activity not reported on lines 1 through 10. Report the sum of the amounts entered for lines 11a–e, columns (b), (d), and (e), on line 11, Part I.

**Line 13.** On line 13, enter the total of columns (b), (d), and (e) of line 12.

You may use the following worksheet to verify your calculations.

Line 13, Part XVI-A.....	_____
Minus: Line 5b, Part I.....	_____
<b>Note:</b> If line 5b, Part I, reflects a loss, add that amount here instead of subtracting.	
Plus: Line 1, Part I.....	_____
Plus: Line 5a, Part I.....	_____
Plus: Expenses of special events deducted in computing line 9 of Part XVI-A.....	_____
Equal: Line 12, column (a), of Part I.....	_____

## Part XVI-B—Relationship of Activities to the Accomplishment of Exempt Purposes

To explain how each amount in column (e) of Part XVI-A was related or exempt function income, show the line number of the amount in column (e) and give a brief description of how each activity reported in column (e) contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes). Activities that generate exempt-function income are activities that form the basis of the organization's exemption from tax.

Also, explain any income entered in column (e) that is specifically excluded from gross income other than by Code section 512, 513, or 514. If no amount is entered in column (e), do not complete Part XVI-B.

**Example.** M, a performing arts association, is primarily supported by endowment funds. It raises revenue by charging admissions to its performances. These performances are the primary means by which the organization accomplishes its cultural and educational purposes.

M reported admissions income in column (e) of Part XVI-A and explained in Part XVI-B that these performances are the primary means by which it accomplishes its cultural and educational purposes.

Because M also reported interest from state bonds in column (e) of Part XVI-A, M explained in Part XVI-B that such interest was excluded from gross income by Code section 103.

## Part XVII—Information Regarding Transfers To and Relationships With Noncharitable Exempt Organizations

Part XVII is used to report direct and indirect transfers to (line 1a) and direct and indirect transactions with (line 1b) and relationships with (line 2) any other noncharitable exempt organization. A "noncharitable exempt organization" is an organization exempt under section 501(c) (that is not exempt under section 501(c)(3)), or a political organization described in section 527.

For purposes of these instructions, the section 501(c)(3) organization completing Part XVII is referred to as the "reporting organization."

A noncharitable exempt organization is "related to or affiliated with" the reporting organization if either:

1. The two organizations share some element of common control; **or**
2. A historic and continuing relationship exists between the two organizations.

A noncharitable exempt organization is unrelated to the reporting organization if:

1. The two organizations share no element of common control, **and**
2. A historic and continuing relationship does not exist between the two organizations.

An "element of common control" is present when one or more of the officers, directors, or trustees of one organization are elected or appointed by the officers, directors, trustees, or members of the other. An element of common control is

also present when more than 25% of the officers, directors, or trustees of one organization serve as officers, directors, or trustees of the other organization.

A "historic and continuing relationship" exists when two organizations participate in a joint effort to achieve one or more common purposes on a continuous or recurring basis rather than on the basis of one or more isolated transactions or activities. Such a relationship also exists when two organizations share facilities, equipment, or paid personnel during the year, regardless of the length of time the arrangement is in effect.

**Line 1—Reporting of certain transfers and transactions.** Generally, the reporting organization must report on line 1 any transfer to or transaction with a noncharitable exempt organization even if the transfer or transaction constitutes the only connection with the noncharitable exempt organization.

**Related organizations.** If the noncharitable exempt organization is related to or affiliated with the reporting organization, the reporting organization must report all direct and indirect transfers and transactions except for contributions and grants it received.

**Unrelated organizations.** All transfers from the reporting organization to an unrelated noncharitable exempt organization must be reported on line 1a. All transactions between the reporting organization and an unrelated noncharitable exempt organization must be shown on line 1b, unless they meet the exception in the specific instructions for line 1b.

**Line 1a—Transfers.** Answer "Yes" to lines 1a(1) and 1a(2) if the reporting organization made any direct or indirect transfers of any value to a noncharitable exempt organization.

A "transfer" is any transaction or arrangement whereby one organization transfers something of value (cash, other assets, services, use of property, etc.) to another organization without receiving something of more than nominal value in return. Contributions, gifts, and grants are examples of transfers.

If the only transfers between the two organizations were contributions and grants made by the noncharitable exempt organization to the reporting organization, answer "No."

**Line 1b—Other transactions.** Answer "Yes" for any transaction described in line 1b(1)–(6), regardless of its amount, if it is with a related or affiliated organization.

**Unrelated organizations.** Answer "Yes" for any transaction between the reporting organization and an unrelated noncharitable exempt organization, regardless of its amount, if the reporting organization received less than adequate consideration. There is adequate consideration where the fair market value

of the goods, and other assets or services furnished by the reporting organization, is not more than the fair market value of the goods, and other assets or services received from the unrelated noncharitable exempt organization. The exception described below does not apply to transactions for less than adequate consideration.

Answer "Yes" for any transaction between the reporting organization and an unrelated noncharitable exempt organization if the amount involved is more than \$500. The "amount involved" is the fair market value of the goods, services, or other assets furnished by the reporting organization.

**Exception.** If a transaction with an unrelated noncharitable exempt organization was for adequate consideration and the amount involved was \$500 or less, answer "No" for that transaction.

**Line 1b(3).** Answer "Yes" for transactions in which the reporting organization was either the lessor or the lessee.

**Line 1b(4).** Answer "Yes" if either organization reimbursed expenses incurred by the other.

**Line 1b(5).** Answer "Yes" if either organization made loans to the other or if the reporting organization guaranteed the other's loans.

**Line 1b(6).** Answer "Yes" if either organization performed services or membership or fundraising solicitations for the other.

**Line 1c.** Complete line 1c regardless of whether the noncharitable exempt organization is related to or closely affiliated with the reporting organization. For the purposes of this line, "facilities" includes office space and any other land, building, or structure whether owned or leased by, or provided free of charge to, the reporting organization or the noncharitable exempt organization.

**Line 1d.** Use this schedule to describe the transfers and transactions for which "Yes" was entered on lines 1a–c above. You must describe each transfer or transaction for which the answer was "Yes." You may combine all of the cash transfers (line 1a(1)) to each organization into a single entry. Otherwise, make a separate entry for each transfer or transaction.

**Column (a).** For each entry, enter the line number from line 1a–c. For example, if the answer was "Yes" to line 1b(3), enter "b(3)" in column (a).

**Column (d).** If you need more space, write "see attached" in column (d) and use an attached sheet for the description. If making more than one entry on line 1d,

specify on the attached sheet which transfer or transaction you are describing.

**Line 2—Reporting of certain relationships.** Enter on line 2 each noncharitable exempt organization that the reporting organization is related to or affiliated with, as defined above. If the control factor or the historic and continuing relationship factor (or both) is present at any time during the year, identify the organization on line 2 even if neither factor is present at the end of the year.

Do not enter unrelated noncharitable exempt organizations on line 2 even if transfers to or transactions with those organizations were entered on line 1. For example, if a one-time transfer to an unrelated noncharitable exempt organization was entered on line 1a(2), do not enter the organization on line 2.

**Column (b).** Enter the exempt category of the organization; for example, "501(c)(4)."

**Column (c).** In most cases, a simple description, such as "common directors" or "auxiliary of reporting organization" will be sufficient. If you need more space, write "see attached" in column (c) and use an attached sheet to describe the relationship. If you are entering more than one organization on line 2, identify which organization you are describing on the attached sheet.

## Part XVIII—Public Inspection

See General Instruction Q for information on making the foundation's annual return available for public inspection and publishing a notice in a newspaper stating that the return is available for public inspection. All domestic private foundations (including section 4947(a)(1) nonexempt charitable trusts treated as private foundations) are subject to the public inspection and notice provisions.

## Signature

The return must be signed by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate officer (such as tax officer) who is authorized to sign. A receiver, trustee, or assignee must sign any return that he or she is required to file for a corporation. If the return is filed for a trust, it must be signed by the authorized trustee or trustees. Sign and date the form and fill in the signer's title.

If an officer or employee of the organization prepares the return, the Paid Preparer's space should remain blank. If someone prepares the return without charge, that person should not sign the return.

Generally, anyone who is paid to prepare the organization's tax return must sign the return and fill in the Paid Preparer's Use Only area.

If you have questions about whether a preparer is required to sign the return, please contact an IRS office.

The paid preparer must complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps and labels are not acceptable.)
- Give the organization a copy of the return in addition to the copy to be filed with the IRS.

If the box for question 13 of Part VII-A is checked (section 4947(a)(1) nonexempt charitable trust filing Form 990-PF instead of Form 1041), the paid preparer must also enter his or her social security number or, if applicable, employer identification number in the spaces provided. Otherwise, **do not** enter the preparer's social security or employer identification number.

## Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> .....	140 hr., 52 min.
<b>Learning about the law or the form</b> .....	27 hr., 35 min.
<b>Preparing the form</b> .....	32 hr., 2 min.
<b>Copying, assembling, and sending the form to the IRS</b> .....	16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this address. Instead, see **When and Where To File** on page 5.

## Exclusion Codes

### General Exceptions

- 01— Income from an activity that is not regularly carried on (section 512(a)(1))
- 02— Income from an activity in which labor is a material income-producing factor and substantially all (at least 85%) of the work is performed with unpaid labor (section 513(a)(1))
- 03— Section 501(c)(3) organization— Income from an activity carried on primarily for the convenience of the organization's members, students, patients, visitors, officers, or employees (hospital parking lot or museum cafeteria, for example) (section 513(a)(2))
- 04— Section 501(c)(4) local association of employees organized before May 27, 1969— Income from the sale of work-related clothes or equipment and items normally sold through vending machines; food dispensing facilities; or snack bars for the convenience of association members at their usual places of employment (section 513(a)(2))
- 05— Income from the sale of merchandise, substantially all of which (at least 85%) was donated to the organization (section 513(a)(3))

### Specific Exceptions

- 06— Section 501(c)(3), (4), or (5) organization conducting an agricultural or educational fair or exposition— Qualified public entertainment activity income (section 513(d)(2))
- 07— Section 501(c)(3), (4), (5), or (6) organization—Qualified convention and trade show activity income (section 513(d)(3))
- 08— Income from hospital services described in section 513(e)
- 09— Income from noncommercial bingo games that do not violate state or local law (section 513(f))
- 10— Income from games of chance conducted by an organization in North Dakota (section 311 of the Deficit Reduction Act of 1984, as amended)
- 11— Section 501(c)(12) organization— Qualified pole rental income (section 513(g))
- 12— Income from the distribution of low-cost articles in connection with the solicitation of charitable contributions (section 513(h))
- 13— Income from the exchange or rental of membership or donor list with an organization eligible to receive charitable contributions by a section 501(c)(3) organization; by a war veterans' organization; or an auxiliary unit or society of, or trust or foundation for, a war veterans' post or organization (section 513(h))

### Modifications and Exclusions

- 14— Dividends, interest, payments with respect to securities loans, annuities, income from notional principal contracts, other substantially similar income from ordinary and routine investments, and loan commitment fees, excluded by section 512(b)(1)
- 15— Royalty income excluded by section 512(b)(2)
- 16— Real property rental income that does not depend on the income or profits derived by the person leasing the property and is excluded by section 512 (b)(3)

- 17— Rent from personal property leased with real property and incidental (10% or less) in relation to the combined income from the real and personal property (section 512(b)(3))
- 18— Gain or loss from the sale of investments and other non-inventory property and from certain property acquired from financial institutions that are in conservatorship or receivership (sections 512(b)(5) and (16)(A))
- 19— Gain or loss from the lapse or termination of options to buy or sell securities or real property, and on options and from the forfeiture of good-faith deposits for the purchase, sale, or lease of investment real estate (section 512(b)(5))
- 20— Income from research for the United States; its agencies or instrumentalities; or any state or political subdivision (section 512(b)(7))
- 21— Income from research conducted by a college, university, or hospital (section 512(b)(8))
- 22— Income from research conducted by an organization whose primary activity is conducting fundamental research, the results of which are freely available to the general public (section 512(b)(9))
- 23— Income from services provided under license issued by a federal regulatory agency and conducted by a religious order or school operated by a religious order, but only if the trade or business has been carried on by the organization since before May 27, 1959 (section 512 (b)(15))

### Foreign Organizations

- 24— Foreign organizations only—Income from a trade or business NOT conducted in the United States and NOT derived from United States sources (patrons) (section 512(a)(2))

### Social Clubs and VEBAs

- 25— Section 501(c)(7), (9), or (17) organization—Non-exempt function income set aside for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(3)(B)(i))
- 26— Section 501(c)(7), (9), or (17) organization—Proceeds from the sale of exempt function property that was or will be timely reinvested in similar property (section 512(a)(3)(D))
- 27— Section 501(c)(9) or (17) organization— Non-exempt function income set aside for the payment of life, sick, accident, or other benefits (section 512(a)(3)(B)(ii))

### Veterans' Organizations

- 28— Section 501(c)(19) organization— Payments for life, sick, accident, or health insurance for members or their dependents that are set aside for the payment of such insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(4))
- 29— Section 501(c)(19) organization— Income from an insurance set-aside (see code 28 above) that is set aside for payment of insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (Regs. 1.512(a)-4(b)(2))

### Debt-Financed Income

- 30— Income exempt from debt-financed (section 514) provisions because at least 85% of the use of the property is for the organization's exempt purposes. (**Note:** *This code is only for income from the 15% or less non-exempt purpose use.*) (section 514(b)(1)(A))
- 31— Gross income from mortgaged property used in research activities described in section 512(b)(7), (8), or (9) (section 514(b)(1)(C))
- 32— Gross income from mortgaged property used in any activity described in section 513(a)(1), (2), or (3) (section 514(b)(1)(D))
- 33— Income from mortgaged property (neighborhood land) acquired for exempt purpose use within 10 years (section 514(b)(3))
- 34— Income from mortgaged property acquired by bequest or devise (applies to income received within 10 years from the date of acquisition) (section 514(c)(2)(B))
- 35— Income from mortgaged property acquired by gift where the mortgage was placed on the property more than 5 years previously and the property was held by the donor for more than 5 years (applies to income received within 10 years from the date of gift (section 514(c)(2)(B))
- 36— Income from property received in return for the obligation to pay an annuity described in section 514(c)(5)
- 37— Income from mortgaged property that provides housing to low and moderate income persons, to the extent the mortgage is insured by the Federal Housing Administration (section 514(c)(6)). (**Note:** *In many cases, this would be exempt function income reportable in column (e). It would not be so in the case of a section 501(c)(5) or (6) organization, for example, that acquired the housing as an investment or as a charitable activity.*)
- 38— Income from mortgaged real property owned by a school described in section 170(b)(1)(A)(ii); a section 509(a)(3) affiliated support organization of such a school; a section 501(c)(25) organization; or by a partnership in which any of the above organizations owns an interest if the requirements of section 514(c)(9)(B)(vi) are met (section 514(c)(9))

### Special Rules

- 39— Section 501(c)(5) organization—Farm income used to finance the operation and maintenance of a retirement home, hospital, or similar facility operated by the organization for its members on property adjacent to the farm land (section 1951(b)(8)(B) of Public Law 94-455)
- 40— Annual dues, not exceeding \$106 (subject to inflation), paid to a section 501(c)(5) agricultural or horticultural organization (section 512(d))

### Trade or Business

- 41— Gross income from an unrelated activity that is regularly carried on but, in light of continuous losses sustained over a number of tax periods, cannot be regarded as being conducted with the motive to make a profit (not a trade or business)