



Oklahoma City

Community
Foundation

the adviser

a newsletter for legal and financial advisers

December 1998



Local experts added to Investment Committee



Jenee Naifeh

Patrick J. Ryan

G. Rainey Williams, Jr.

NEW MEMBERS OF THE OKLAHOMA CITY COMMUNITY
FOUNDATION'S INVESTMENT COMMITTEE

The Oklahoma City Community Foundation recently appointed new members to the Investment Committee to serve for the 1998-1999 fiscal year. New non-trustee members include Pat Ryan, Jenee Naifeh and Rainey Williams. George Records, Ed Barth, Raymond Hefner, Jim Holloman, and Jim Tolbert also serve on the Investment Committee.

The Investment Committee serves an important role in the Community Foundation's operations—it oversees the foundation's investment function, with the goals of capital preservation, protection against inflation and long-term growth.

Entrusted with the Community Foundation's assets, the Investment Committee ensures

that the funds perform well and provide a permanent source of support for local non-profit organizations, as well as utilizing donors' gifts in a way that adds value to the contributions.

Because of the committee's careful stewardship of funds, the Community Foundation is able to provide fund management services to donors at a very low cost. This makes the Community Foundation a simple and flexible vehicle for donors' financial planning goals as well as for their charitable interests.

The Investment Committee, its investment counsel, James K. Horchkiss, and the Foundation's staff actively monitor the investment performance and actions of the investment managers to ensure the goals of the investment policy are met.

Non-trustee members are chosen for their professional experience in investment management.

With 36 years of experience at OG&E, Pat Ryan brings a wealth of knowledge to the committee. During his years with OG&E, Mr. Ryan served as treasurer, executive vice president, chief operating officer

and vice chairman. He is currently president and owner of Proflight Aviation Service, L.L.C.

Jenee Naifeh, an assistant vice-president and financial consultant with Merrill Lynch, brings an investment background to the committee. She advises both institutional and individual clients regarding a broad spectrum of financial planning issues.

Rainey Williams' investment experience also will be beneficial to the committee. He is the managing general partner of Marco Capital Group, an Oklahoma City-based private investment capital partnership that emphasizes investments in marketable securities, closely-held investments and real estate.

The new Investment Committee members, along with the existing members of the committee, are committed to helping the Community Foundation have a significant impact on the community through careful stewardship of the community's endowment. ☐

INSIDE

CONSIDER THIS:

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Charitable Gift
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CHARITABLE GIFTS

AS A TAX PLANNING

TOOL

Community
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unique options

LEGISLATIVE UPDATE

Private Foundations:
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• SEE RELATED STORY ON PAGE 5.

OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Combined Statements of Activities

	Three Months Ended September 30, 1998	Year Ended June 30, 1998
REVENUE AND SUPPORT		
Contributions	\$ 1,961,616	\$ 20,692,443
Investment income	2,321,302	9,592,685
Net investment gains/(losses)	(18,939,264)	43,448,209
Change in value of split-interest agreements	-	48,328
Other income	10,634	38,120
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TOTAL REVENUE AND SUPPORT	(14,645,712)	73,819,785
EXPENSES AND DISTRIBUTIONS		
Grants and program services	1,500,380	7,300,938
Investment management fees	153,567	590,244
General and administrative	225,830	886,656
Development	39,475	176,016
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TOTAL EXPENSES AND DISTRIBUTIONS	1,919,252	8,953,854
INCREASE/(DECREASE) IN UNRESTRICTED NET ASSETS	(16,564,964)	64,865,931
NET ASSETS AT BEGINNING OF PERIOD	312,077,198	247,211,267
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NET ASSETS AT END OF PERIOD	\$295,512,234	\$312,077,198
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OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Investment Performance
Pooled Investments

	<i>Percentage Returns</i>			
	Three Months Ended September 30, 1998	Year Ended June 30, 1998	Three Years Ended June 30, 1998	Five Years Ended June 30, 1998
EQUITIES				
Community Foundation	- 11.00	29.19	28.71	22.40
Standard & Poor's 500	- 9.90	30.27	30.24	23.08
FIXED INCOME				
Community Foundation	4.85	9.01	6.90	6.09
Lehman Int. Gov. Corp.	4.50	8.58	6.93	6.15
TOTAL FUND				
Community Foundation	- 5.62	20.33	18.76	14.64
65% S&P/35% Lehman	- 4.86	--	--	--
50% S&P/50% Lehman	--	19.16	18.36	14.56

Results given are for all Community Foundation Funds excluding those in separately invested supporting organizations. Special assets are also excluded. Equity performance is compared to the Standard and Poor's 500 Stock Index; fixed income performance is compared to the Lehman Intermediate Government Corporate Index; total return is compared to a composite of these two indices, with weighting based upon applicable asset allocation instructions given to money managers.

ADVISERS

Do you talk to your clients about charitable giving? Share this insert with a client who may be thinking about making a charitable gift.

consider this...

Charitable Gift Annuities

by David J. Feroli, CPA



DAVID FEROLI IS A TAX PARTNER WITH KPMG'S OKLAHOMA CITY OFFICE. MR. FEROLI IS A MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE OKLAHOMA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, WHERE HE HAS SERVED ON VARIOUS COMMITTEES, AND THE OKLAHOMA CITY CHAPTER OF CERTIFIED PUBLIC ACCOUNTANTS.

The Small Business Job Protection Act of 1996 provided new provisions allowing section 501(c)(3) organizations, such as the Community Foundation, to become shareholders of S corporations. This rule became effective for S corporation tax years beginning after December 31, 1997. This new law provided new opportunities for S corporation shareholders to contribute stock to charity and not be burdened with the detrimental impacts of having the S corporation election terminated. Generally, the charitable contribution deduction allowable is the fair market value of the stock contributed; however, there is a reduction of the contribution to the extent the sale of the stock would require the recognition of ordinary income by looking through to the assets of the corporation.

Since charitable remainder trusts (CRTs) and charitable lead trusts (CLTs) are not section 501(c)(3) organizations, an S corporation shareholder cannot contribute S corporation stock to these type of entities without terminating the S corporation election. Therefore, to avoid the termination of the S corporation election, a similar type of gifting technique may be utilized which may accomplish similar results to a CRT or CLT.

The charitable gift annuity (CGA) has become an increasingly popular method for making current charitable contributions while at the same time providing for lifetime income. Under this arrangement, you transfer cash or other property to a charitable institution in exchange for its promise to pay you, and possibly one other beneficiary (usually your spouse), a lifetime annuity. The annuity may begin immediately

or payment may be deferred until a later date.

In most cases, a donor will transfer appreciated property to a charity in exchange for the charity's promise to pay the donor and/or spouse a lifetime annuity. Because the charity wants the benefit of some residual amount after the lifetime interests have expired, the fair value of the annuity will be less than the fair value of the property you transfer.

For example, assume the following facts:

- You transfer stock worth \$250,000 to a charity;
- The stock has a tax basis to you of \$50,000;
- You have owned the stock for more than one year;
- In exchange for the stock transfer, the charity agrees to pay you a \$15,000 annuity as long as you live; and
- Under IRS calculation methods, the fair market value of the annuity is \$200,000 (which would change based upon your age, life expectancy, and the starting date of the annuity).

In some respects, the CGA is treated like a "bargain sale" of property to a charitable organization. Because you are "selling" property worth \$250,000 to a charity in exchange for an annuity valued at \$200,000, you generally will be entitled to a \$50,000 charitable contribution deduction, subject to the normal limitations and reductions. However, there is at least one important difference between the charitable gift annuity and a bargain sale: A bargain sale normally will result in some immediate additional income tax as of the date of "sale," while a CGA, if properly structured, will not. In most situations, you will report some taxable income only as the annuity is paid to you. Additionally, portions of the annuity payments may be treated as long-term capital gain.

CGAs have numerous applica-

tions. First, assume you own appreciated stock that pays a 4 percent dividend. As you retire, you would like to have a rate of return of at least 7 percent. Selling the stock and reinvesting the after-tax proceeds are unlikely to generate the income you need; consequently, you transfer the stock to a charity in exchange for a 7 percent annuity. In this way, you have possibly created a current charitable deduction and an increased yield over the remainder of your life.

A CGA can increase your retirement income on a tax-preferred basis even when you have maximized contributions to a qualified retirement plan. In addition, such amounts are not subject to many of the onerous rules of a qualified retirement plan. By using a CGA in this way, you may actually increase your retirement income.

Assume that you have contributed all you can to your qualified retirement plan but you have additional funds to invest for retirement savings. You may want to consider a CGA transfer now in exchange for an annuity payable at your desired retirement age. Normally, you will have a larger charitable deduction when the annuity starting date is postponed as long as possible.

CGAs can be a useful planning tool when certain other charitable vehicles are not available for one reason or another. CGAs are not limited to contributions of S corporation stock but may actually be beneficial when gifting cash or other types of property to a 501(c)(3) organization, such as the Community Foundation.

The information set forth above is necessarily general in nature and is based on authorities that are subject to change. The applicability to a specific taxpayer should only be determined after a careful review of the taxpayer's specific situation. ☐

December 1998
Keep this insert
for your files.

Using Charitable Contributions as a Tax-Planning Tool

A charitable contribution has the benefit of enhancing both your client's tax situation and the community at the same time. Since charitable contributions to qualified organizations are deductible as an itemized deduction, they can be an effective tool in reducing your client's income tax liability.

A charitable gift to the Oklahoma City Community Foundation provides many opportunities for your client.

The Community Foundation's Unique Donor Options

With a contribution to the Community Foundation, the donor can realize his or her charitable goals because of the various options offered.

A single contribution to the Community Foundation can support several non-profit organizations, charitable causes or fields of interest.

The Community Foundation staff can assist the donor in determining which alternative or non-profit organization will meet the donor's charitable objectives.

The donor-advised option at the Community Foundation offers the donor the unique ability to shift his or her charitable giving focus to different areas or new organizations as charities and needs change over time.

A Donor-Advised Fund can be set up as a permanent endowment fund or as a temporary "pass-through" fund (formerly called escrow funds).

With a permanent Donor-Advised Fund, the donor makes a contribution and receives a tax deduction in one tax year, and can suggest how the earnings from the fund should be used in the community each year thereafter.



Since the fund is an endowment, the gift continues to support the community in perpetuity.

With a pass-through Donor-Advised Fund, the donor receives the tax deduction in one tax year and can suggest distributions of the entire principal to a charitable organization at any time in the future.

As the community's needs change, the donor has the flexibility to change his or her suggestions regarding the fund distributions accordingly. Distributions from the advised fund can be made to any non-profit organization or qualified charity. The distributions are subject to final approval from the Trustees of the Community Foundation.

Contributions to the Community Foundation can be made in several ways:

Cash Contributions

A cash contribution might be beneficial for a client that has investment or business property that has depreciated in value. Your client might consider selling the property and recognizing the deductible loss on his or her tax return. In turn, your client can give the proceeds from the sale to charity.

A cash contribution is one of the easiest ways to make a charitable contribution to the Community Foundation.

For taxpayers who itemize their deductions, charitable

contributions are deductible to the extent that they do not exceed 50 percent of adjusted gross income. Amounts in excess of this limitation may be carried forward for a five-year period.

Property Contributions

Gifts of long-term capital gain property allow the donor to realize significant tax savings while maximizing the charitable contribution.

There are two principal tax advantages of gifting long-term capital gain property.

First, the donor can avoid reporting the gain as income for regular tax purposes.

Second, the donor will be entitled to a deduction equal to the fair market value of the property. Significantly, stock and other investment property donated to charity should be held by the donor for more than 12 months in order to realize the greatest tax advantage.

With a gift of long-term capital gain property, the deduction is limited to 30 percent of adjusted gross income. Any contributions in excess of this limit may be carried forward for a five-year period.

If your client owns appreciated stock in a closely-held company, the stock can be donated to the Community Foundation and

subsequently redeemed by the company for cash.

While it is permissible to have a prearranged plan for the stock redemption with this strategy, there can be no legal obligation by the Community Foundation or other charity to sell the closely-held stock back to the corporation.

Your client will be entitled to a deduction equal to the fair market value of the stock at the date of contribution. Using this strategy effectively allows your client to make a charitable contribution using the corporation's cash.

Importantly, the contribution of closely-held stock to the Community Foundation can be done with S corporation stock.

Prior to 1997, the transfer of S corporation stock to a tax-exempt charity would terminate the S election. However, for tax years beginning after 1997, tax-exempt

charities are valid S corporation shareholders. The Community Foundation is experienced in and can assist with the transfer of closely-held stock.

In addition to gifting closely-held stock, gifting publicly-traded

appreciated securities to the Community Foundation also is extremely simple.

The Community Foundation maintains accounts at several brokerage firms and will open an account anywhere to facilitate the transfer of publicly-traded securities. Transferring the securities can be easily done with a phone call or an Internet transaction.

Contact Carla Pickrell at 405/235-5603 to find out more about this tax-saving option. ☒

The Community Foundation maintains accounts at the following firms:

- Prudential-Bache
- Goldman, Sachs & Co.
- Merrill Lynch
- Morgan Stanley Dean Witter
- Paine-Webber Inc.
- Charles Schwab
- Capital West

endowment building

Changes in investment structure expected to yield greater results for city's charitable activities

Stewardship of the endowment assets of the Oklahoma City Community Foundation requires an investment policy and process that preserves the capital base of the endowment, provides growth to protect against inflation and generates income for the charitable purposes supported by the endowment.

It is the goal of the Community Foundation to have investment performance that equals or exceeds the market in order to offer our donors the most effective vehicle for the growth of their endowment gifts.

For many years, the general pool of funds of the Community Foundation has been managed by three local bank trust departments, each of which invested a portion of the pool as a balanced fund. The investment performance results for the year ending June 30, 1998, as well as the compounded return for the previous three and five years were produced by Nationsbank (formerly Boatmen's), Bank of Oklahoma and BankOne (formerly Liberty), each of which made determinations about asset allocation and about specific choice of equity and fixed income issues.

The total return for fiscal '98 was 20.33 percent, which is among the top 25 percent of community foundations in the United States. The returns for three and five years also compare favorably with both the market and other investment options.

Since 1989, James Hotchkiss has been investment consultant to the Community Foundation and has provided invaluable advice and service to the Trustees and the investment committee.

The assets of the Community Foundation have increased more than fourfold in the past five years. As part of a larger review of its governance and practice, the

Community Foundation redesigned its investment practices to adapt not only for the growth of the endowment, but significant changes in the local banking community and the range of investment options available for large endowments.

Three major changes in the investment practices of the general pool have been implemented as of July 1, 1998:

- Responsibility for investment policy and manager selection has been delegated to an investment committee composed of current and former Trustees and three community members chosen for their personal knowledge and experience with investments.
- Asset allocation, the decisions about the basic categories of investments, such as equity or fixed income, will be handled by the investment committee with the advice of the investment consultant.
- Investment managers, those individuals and firms that select which issues to own, will

be chosen based on their style and performance, and each will generally manage only that specific asset type and style allocated to it by the investment committee.

The existing bank managers were retained within the new structure, with each assigned an asset style that reflects their individual strengths. Additionally, a "small-cap" equity manager, Kalmar Investments, was chosen to provide additional equity diversity. The resulting structure includes five separate "style-based" investment managers, each with the following styles and assets allocation as of July 1, 1998:

Equity: 64.34 percent

- Core Style (BankOne Value Growth), 31.1 percent
- Large Cap Growth (Bank of Oklahoma), 22.1 percent
- Small Cap (Kalmar Investments), 11.0 percent.

Fixed Income: 35.6 percent

- BankOne, 18.9 percent
- Boatmen's Capital, 16.7 percent

The larger Affiliated Funds at the Community Foundation still

have the option of a separately invested account.

With this new structure, the Community Foundation offers its component funds in the general pool, as well as its separately invested Affiliated Funds, a greater potential for diversity and excellence within individual investment styles. We expect the results, over the long-term investment horizon of three to five years, to be even stronger for the organizations and charitable purposes we support.

The basic investment policies of the Community Foundation—regarding objectives, quality of issues selected, performance goals and range of acceptable risk—have not changed. Performance will continue to be judged based on the S&P 500 Index and the Lehman Intermediate Government/Corporate Index. The investment objectives and policies are available to the public through the Community Foundation's office, at 405/235-5603. ☐

COMMUNITY FOUNDATION LOSES LEADER AND LONGTIME FRIEND

Eleanor Maurer, a longtime friend and officer of the Oklahoma City Community Foundation, died on October 29, 1998.

Maurer served as the first and only Treasurer of the community Foundation for almost 30 years. By providing leadership and guidance, she was an integral part of the Community Foundation. Through her service,



Eleanor Maurer

she made significant contributions not only to this organization, but also to the greater community.

"Eleanor Maurer was the corporate memory, the repository of past history, mistakes and successes, that every organization needs. We will always appreciate her loyal and faithful support," said Nancy Anthony, executive director of the Community Foundation.

As John Kirkpatrick's primary assistant on most of his community projects, she was a valued adviser to him when the Community Foundation was established in 1969.

Memorial contributions for Mrs. Maurer can be sent to the Community Foundation, P.O. Box 1146, Oklahoma City, OK 73101-1146. ☐

MISSION STATEMENT

The mission of the Oklahoma City Community Foundation, a non-profit public charity, is to serve the charitable needs of the Oklahoma City area through the development and administration of endowment funds with the goal of preserving capital and enhancing its value for the benefit of the Oklahoma City area.

The mission will be fulfilled by pursuit of these goals:

- Provide convenient, efficient, and effective ways through which donors can contribute assets to charitable purposes.
- Encourage donors to create funds which will benefit the community both now and in the future.
- Advocate for the development of endowment funds and provide appropriate means by which permanent endowment funds can be built and wisely managed to provide long-term support.
- Develop the Funds for Oklahoma City, restricted and unrestricted community endowments, which can be used by the Trustees and the community to develop, coordinate, and enhance services and programs which meet the changing needs of the community.

For comments or suggestions about material for The Adviser, contact Laura Lang, editor. For more information on the Community Foundation, contact Nancy Anthony, executive director. Phone: 405/235-5603.

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Private Foundation Tax Incentive Permanently Extended

Internal Revenue Code section 170(e)(5) allows donors to deduct the full fair market value for charitable contributions of publicly traded stock to private foundations. Without this provision, the donor's charitable contribution deduction is limited to his or her cost basis in the stock.

This tax incentive, previously set to expire on June 30, 1998, has been extended several times since 1994. With the passage of H.R. 4328 in October 1998, the provision has become permanent. With IRC section 170(e)(5) permanent, donors will be able to deduct the full fair market value of their contributions to private foundations without concern of the provision's expiration.

The same opportunity for full deduction of fair market value of this type

of gift exists at the Oklahoma City Community Foundation without the additional administrative and operating burdens of a private foundation.

Contributions of appreciated property to the Community Foundation also offer an income tax advantage over private foundations. Contributions of appreciated property to the Community Foundation are subject to a 30 percent of adjusted gross income limitation while contributions of appreciated property to private foundations are subject to a 20 percent of adjusted gross income limitation.

Contact Carla Pickrell at 235-5603 for more information on giving this type of asset.

Private Foundations to Provide Copies of Form 990-PF

Public charities are required to have their tax returns available for public inspection and provide "take home" copies of the returns, if requested. These public information requirements have been extended to private foundations with the Omnibus Consolidated and Emergency Supplemental Appropriations Act.

Under prior law, private foundations were only required to have their tax returns available for public inspection for 180 days after filing. With the new law, private foundations not only have to have their tax returns available for public

inspection, but also provide "take home" copies of the returns, if requested. The "take home" requirement applies for three years after the date of filing the return.

Both public charities and private foundations may charge a reasonable fee for copying and mailing costs of their returns. The "take home" requirement for public charities and private foundations can be avoided if the documents are made "widely available." The proposed regulations so far limit "widely available" to placing the document on an appropriate Web site.



Oklahoma City
**Community
Foundation**

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