Oklahoma City
Community
Foundation

the adviser

a newsletter for legal and financial advisers
May/June 1998

Anthony supports several of his favorite causes with one simple gift

Ray Anthony is philosophical about the stock market these days.

"It's gonna go up and it's gonna go down, and there's not a darn thing you can do about it," he says.

Anthony acquired his unflappable attitude about life's inconsistencies through his long business career with the C.R. Anthony Co., his family's Oklahoma-based retail business.

"Business is good sometimes, sometimes it isn't," he said.

"If you're dealing in stocks, you need to realize that there will be ups and downs. Basically, I've gone on the theory that if I can't afford to lose something, I don't put it in stocks."

Anthony recently made a gift of appreciated assets to the Oklahoma City Community Foundation.

"I had stock in a mutual fund that had appreciated quite a bit over the years, and if I had sold it and given cash, there would have been quite a tax factor," he said.

"So the logical thing was to give the shares in the fund."

The ease of making this particular gift was an added bonus for Anthony.

He simply contacted the Community Foundation, advised us of his wishes, and the transactions and distributions were taken care of for him.

Through this single gift, Anthony was able to establish a Donor-Advised Fund in addition to supporting several of his favorite non-profit agencies.

A Donor-Advised Fund allows a donor to make a single gift in the tax year that is most beneficial, and advise how the earnings are used each year thereafter.

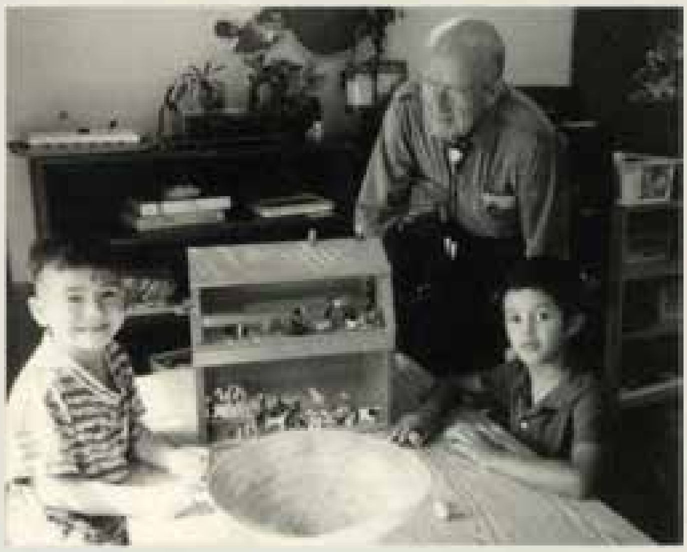
"[A Donor-Advised Fund] affords a flexibility and a chance to vary your support for different agencies," Anthony said.

With his initial gift, he was able to support four different agencies directly through their endowment funds at the Community Foundation.

Not only that, but at the time he made the gift, three of those agencies were participating in a matching "Challenge" from John Kirkpatrick, who matched contributions to the agencies up to a certain amount. Thus, Anthony was able to effectively double his support to those agencies.

The Community Foundation offers a variety of services that make charitable giving simple and flexible enough to meet almost any donor's needs.

Contact the Community Foundation at 235-5603 if you have clients with charitable intentions.



Ray Anthony with children at Celebrations! preschool, which he supported with a recent gift of appreciated assets. He also supported the YMCA and established a Donor-Advised Fund.

Oklahoma City Community Foundation, Inc.
Combined Statements of Activities

	Nine Months Ended March 31, 1998	Year Ended June 30, 1997
REVENUE AND SUPPORT		
Contributions	$ 7,039,085	$ 71,526,901
Investment income	6,934,714	6,508,649
Net investment gains	37,063,300	23,317,615
Other income	22,697	5,252
TOTAL REVENUE AND SUPPORT	51,059,796	101,358,417
EXPENSES AND DISTRIBUTIONS		
Grants and program services	4,075,656	5,400,861
Investment management fees	381,866	361,073
General and administrative	631,503	696,626
Development	70,167	93,000
TOTAL EXPENSES AND DISTRIBUTIONS	5,159,192	6,551,560
INCREASE IN UNRESTRICTED NET ASSETS	45,900,604	94,806,857
UNRESTRICTED NET ASSETS AT BEGINNING OF PERIOD		
As previously reported	247,211,267	152,800,673
Adjustment for change to accrual method of accounting	–	(396,263)
Balance at beginning of period, as restated for June 30, 1997	247,211,267	152,404,410
UNRESTRICTED NET ASSETS AT END OF PERIOD	$293,111,871	$247,211,267

Oklahoma City Community Foundation, Inc.
Investment Performance
Pooled Investments

Percentage Returns

	Nine Months Ended March 31, 1998	Year Ended June 30, 1997	Three Years Ended June 30, 1997	Five Years Ended June 30, 1997
EQUITIES				
Community Foundation	24.67	30.71	28.83	17.85
Standard & Poor's 500	26.10	34.63	28.87	19.76
FIXED INCOME				
Community Foundation	6.89	7.17	7.21	6.43
Lehman Int. Gov. Corp.	6.53	7.25	7.52	6.53
TOTAL FUND				
Community Foundation	16.87	19.43	18.16	12.32
50% S&P/50% Lehman	16.13	20.49	18.07	13.16

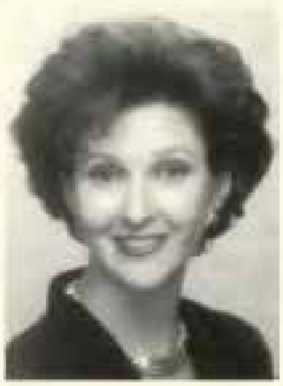
Results given are for all Community Foundation Funds excluding those in separately invested supporting organizations. Special assets are also excluded. Equity performance is compared to the Standard and Poor's 500 Stock Index; fixed income performance is compared to the Lehman Intermediate Government Corporate Index; total return is compared to an equal weighting of these two.

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...

A Potpourri of Charitable Giving Ideas

by Cynda C. Ottaway



Cynda Ottaway is a Director/Shareholder at Crowe & Dunlevy in Oklahoma City. She is active in the American College Trust and Estate Council and practices primarily on estate planning and related matters. She is also an active volunteer in the Oklahoma City community and is a Charter Member of the Future Fund at the Community Foundation.

Many individuals have charitable wishes but are uncertain about the methods which are available to them. Also, a potential donor to a charity may want to know how to carry out his or her desires in a more tax-efficient manner. If you are one of those individuals, then you may want to review the following examples to see if one of the following suggestions is appropriate for your personal planning.

• Charitable Remainder Trust as Beneficiary of IRA or Qualified Retirement Plan

Do you own an IRA account or retirement plan account? Naming a charitable remainder trust at your death as the beneficiary of your IRA or qualified retirement plan will reduce greatly the income and estate taxation associated with these types of assets.

A testamentary charitable remainder trust is established and funded at the death of a decedent. The actual trust documentation is found within the Will of the individual. This type of trust pays an income stream to any person designated by the decedent within his or her Will for that person's lifetime. Upon the death of the income beneficiary, all remaining assets in this trust are paid to a charity as designated by the decedent in the Will.

At your death, the assets in an IRA or qualified retirement plan are not only included in your estate (and then subject to up to 55 percent of estate tax), but the distributions to the beneficiary are subject to income taxation as well. To reduce the income and estate taxation, you may name a charitable remainder trust as the beneficiary of the IRA account or retirement plan to receive the IRA monies or retirement proceeds at your death.

For example, you have a $1 million IRA. In your Will, you provide for the creation of a charitable remainder trust which will pay to your sister the lesser of a) the income of the trust or b) 8 percent of the value of the trust assets, as valued annually. Additionally, in any year in which the trust earns more than 8 percent of income, the trust will pay to your sister that excess to makeup for years in which the trust earned less than 8 percent of income. At your sister's death, all remaining assets will pass to the charity of your choice, such as the Oklahoma City Community Foundation.

You must also complete the beneficiary designation form for your IRA and name the charitable remainder trust created under your Will as the beneficiary of your IRA account. At your death, the $1 million in the IRA account will be distributed to the trustee of the charitable remainder trust. No income tax will be paid upon that distribution because this type of trust is income tax exempt.

In the first year of the trust, a distribution will be made to your sister in an amount equal to the lesser of a) the trust income or b) $80,000 (8 percent). This is taxable income to your sister.

However, the trust itself is income tax exempt, and the value of the trust will not be depleted for the payment of income tax. Additionally, the trust is not required to make minimum distributions. Rather, the distribution schedule was established in your Will and provides flexibility for income tax planning. If your sister does not need income in a year, the trustee of the trust would invest the trust assets in growth items that throw off little or no income (and thus, no taxable income). Then, in a year in which your sister needs income, the trustee would invest the assets in high income-producing items.

As far as the estate tax consequences are concerned, your estate will only include the present value of your sister's life interest in the trust assets, but the present value of the remainder interest is excluded from your estate since it will pass to charity.

For example, if your sister is 70 years old in the year of your death, only $581,000 of the $1 million would be included in your estate since that is the present value of your sister's life interest in the trust. The remaining $419,000 would be excluded from your estate via the estate tax charitable deduction.

If you had instead named your sister as the beneficiary of the IRA account, the entire $1 million would have been included in your estate and possibly subjected to an estate tax of up to 55 percent.

Additionally, as minimum distributions are made to your sister from the IRA account, your sister would have had to pay income tax on those distributions.

• Gift of Highly-Appreciated Assets to a Charitable Remainder Trust Created During Life Prior to Sale of Such Assets

Are you considering a sale of an asset which has highly

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appreciated in value? If so, you will have to pay income tax on the capital gain upon such sale.

To avoid payment of the income tax on that capital gain, you may gift the property to a charitable remainder trust created during your life. As long as such a gift is made prior to the sale becoming enforceable under law, the sale is deemed as one made by the trustee of the trust.

Where is the benefit to you? The charitable remainder trust is an income tax exempt entity, which means that capital gains tax will not be paid by the trustee of the charitable remainder trust. Additionally, you will receive an income stream generated by the assets of the trust.

"THE CHARITABLE REMAINDER TRUST IS AN INCOME TAX EXEMPT ENTITY, WHICH MEANS THAT CAPITAL GAINS TAX WILL NOT BE PAID BY THE TRUSTEE OF THE CHARITABLE REMAINDER TRUST. ADDITIONALLY, YOU WILL RECEIVE AN INCOME STREAM GENERATED BY THE ASSETS OF THE TRUST."

For example, you own a piece of land which you bought for $100,000. You have been thinking about selling this land. You gift the land to a charitable remainder trust created by you. Then the trustee sells the land for $300,000, which is now held in cash in the trust bank account. No capital gains tax is paid by the trust. [If you had sold the land in your individual capacity, you would have had to pay $40,000 (20 percent rate) of capital gains tax on the capital gain of $200,000 ($300,000 - $100,000)].

The trustee invests the entire $300,000. The terms of the charitable remainder trust provide that you, individually, are entitled to receive an annual payment equal to 8 percent of the value of the trust assets, as valued annually. Then, at your death, all remaining assets in the trust will pass to the charity of your choice, such as the Community Foundation. Thus, in the year the land is sold, you receive a $24,000 payment. This is taxable income to you.

However, in the year you gift the land to the trust, you are entitled to a charitable income tax deduction based on the present value of the remainder interest in the trust.

For example, if you are 50 years old in the year of the gift, the present value of the remainder interest which will pass to the Community Foundation is $52,287. This charitable income tax deduction will be limited to 30 percent of your adjusted gross income in the year of the gift to the trust but the excess can be carried forward for five years.

Additionally, the land and the proceeds from the sale of the land (except to the extent of your receipt of the annual payment) are removed from your estate for estate tax purposes.

• Usage of the Charitable Remainder Trust as An Alternate Income Tax Exempt Retirement Plan

Do you want to build assets in a tax-free environment for your retirement but not be limited by the stringent qualified plan and IRA rules and limitations? You can do this with a charitable remainder trust that pays an annual payment to you equal to the lesser of a) the income generated by the assets in the trust or b) a specified percentage (i.e. 6 percent) of the trust assets, as valued annually.

Additionally, the trust will provide that in any year in which the income generated is greater than the specified percentage, then such excess can be used to make up for years in which the income was less than the percentage specified. Then, at your death, all remaining assets will pass to the charity of your choice.

For example, you fund a charitable remainder trust with $300,000. The annual payment is equal to the lesser of a) the income of the trust or b) 6 percent of the trust assets, as valued annually. There is also a make-up provision which means in any year in which the trust earns more than 6 percent in income, that excess will be distributed to you to make up for prior years in which the trust earned less than 6 percent of income. At the present time, you are 40 years old, are working and do not need any additional income. You want to save for your retirement. So the trustee invests the trust assets in growth assets, such as stocks, which generate no income.

Thus, in the year of funding the trust, no annual payment is made to you. You continue this for 10 years so that no annual payment is made to you, obviously building a large make-up account. You decide 10 years later that you want to retire even though you are only 50 years old. The trustee starts investing the assets of the trust, which have not been depleted for the payment of any income tax and which have now grown to a value of $707,385 (assuming a 10 percent annual growth rate due to wise investing), in income-producing items.

Thus, in year 10, the trust assets are moved to high income-producing bonds, and the trust earns 10 percent in income. You receive a distribution of $70,739. You do this for the next 10 years until you reach age 60, when you can start withdrawing from your qualified retirement plan without penalty. Thereafter, you have two sources to fund your retirement needs. At your later death, all remaining assets in the trust will pass to the charity of your choice.

* * *

Hopefully, these suggestions will give you some ideas which could be explored further. The computations in the illustrations will vary based on age, payout rates, timing and other factors. As always, you should check with your own tax advisers to confirm whether these examples might work in your situation.

Contact Nancy Anthony, executive director of the Community Foundation, at 235-5603 for more information about using these types of assets for gifts to the Community Foundation.

Initiative Provides 'New Opportunities' for Donors to Help Students Attend College

Early this year the Oklahoma City Community Foundation launched a major initiative to increase the number of Oklahoma County students who attend college after high school graduation.

This month the first tangible results of this initiative, called "New Opportunities: A Scholarship and Guidance Network," were illustrated with the awarding of $1,000 college scholarships to 65 Oklahoma County students.

These students, selected as the 1998 Community Foundation Scholars, represent 25 high schools from nine public school districts, as well as five independent and parochial schools.

The Community Foundation hopes to encourage more students to attend college not only through the awarding of scholarships, but also by enhancing the informational resources available to them through their high school guidance office.

Guidance counselors are often a student's best resource for information about college admissions, financial aid and scholarships. For this reason, the Community Foundation invited every public, independent and parochial high school in Oklahoma County to participate in the Oklahoma County Guidance Network.

"Successful college placement first requires motivation on the student's part," said Anna-Faye Rose, scholarship director for the Community Foundation.

"But the high school counselor's knowledge and skills are critical to implementing a plan that will guide the students and their families through the selection and admissions processes," she said.

The Guidance Network provides training opportunities, information sharing and additional resources to help guidance counselors better equip students to explore their educational options after high school.

Since the inception of the Guidance Network in February, the Community Foundation has hosted two continuing education workshops on college access. Guidance counselors are required to attend these workshops to retain their school's eligibility to name Community Foundation Scholars.

Sheila Woolen and Marcus Johnson (students from Classen School of Advanced Studies) with Gov. George Nigh at a dinner in May honoring the 1998 Community Foundation Scholars.

Guidance counselors who participate in the network also qualify to receive resource grants. These grants can be used by the guidance office for reference materials or projects which help students and their families in the college access and funding process.

Another element of the New Opportunities program is to learn how scholarships and financial aid affect the types of schools that students choose to attend after high school. The Community Foundation will analyze data collected about graduating seniors from each school participating in the network.

In addition, a scholarship directory will be published on the Internet this fall. The directory will contain information about independent scholarships available to Oklahoma County students.

Through the collective activities of the New Opportunities program, the Community Foundation hopes to encourage more students to attend college and to foster a community-wide standard of support for students to seek higher education.

Opportunities for Donors

The Community Foundation has made a five-year commitment to the New Opportunities program, which will involve nearly $1 million in support for direct scholarship assistance as well as the other elements of the program.

Commitments recently made by additional donors will increase the number of scholarships awarded next year by 30 percent.

The New Opportunities program provides a direct link between donors and the students they wish to support, and the Community Foundation's administrative capacity makes it easy for a donor to set up an independent scholarship.

If you have clients who are interested in establishing a scholarship fund, consider the flexibility and experience of the Community Foundation. ■

Call for Entries:

If your company or an organization to which you belong sponsors a scholarship program, we would like to include it in the scholarship directory we will publish this fall.

Please contact Anna-Faye Rose at 235-5603.

Criteria for inclusion in the directory:

- Scholarship is for college or vocational education, to be used for tuition, fees, books and room & board.
- Scholarship program is independent of any specific college or any institutional, state or federally sponsored educational funding program.
- Scholarship is open for application by all students who meet the eligibility requirements, and Oklahoma County students have a reasonable chance of receiving an award.

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.

H.R. 2499 proposes charitable write-offs for nonitemizers

LEGISLATIVE UPDATE

A bill currently pending in the U.S. House of Representatives Committee on Ways and Means would increase charitable giving by around $3 billion annually, according to a recent study by Price Waterhouse.

These new gifts would cause a $16.5 billion increase in charitable giving over the next five years, the study says.

The study was commissioned by Independent Sector, a national coalition of voluntary organizations, foundations and corporate giving programs.

H.R. 2499, the Charitable Giving Relief Act, would allow taxpayers who do not itemize deductions on their federal income tax returns to claim a charitable tax deduction.

Under the legislation, nonitemizers would be allowed to deduct 50 percent of their charitable deductions over $500 each year.

For example, under the proposed legislation, a non-itemizing family who gives $2,000 to charity in any given tax year would be able to deduct $750.

Studies show that 71 percent of all taxpayers do not itemize their federal tax returns.

According to the Price Waterhouse study, the value of new gifts spurred by the legislation over the next five years in Oklahoma would be $196 million (based on 1998 income levels).

H.R. 2499 was introduced last September by Rep. Philip Crane (R-IL) and currently has 108 co-sponsors in the House, including Rep. J.C. Watts (R-Norman) and Rep. Wes Watkins (R-Stillwater).

Sun to set once more on private foundation tax incentive

Section 170(e)(5) of the Internal Revenue Code allows donors to take a full charitable deduction for gifts of publicly traded stock to private foundations.

This tax incentive has been set to expire several times since 1994 and most recently was extended through **June 30, 1998**, by the balanced budget agreement of July 1997.

Unless the provision is once again extended, after the June sunset gifts of publicly traded securities will be deductible at cost basis only.

The same opportunity for full deductibility of this type of gift still exists without danger of expiration for donors contributing to the Oklahoma City Community Foundation.

Contact Nancy Anthony at 235-5603 for more information on giving this type of asset.

Correction: Due to a typographical error, an article on page 1 of the Feb/March 1998 edition stated that the measure would expire on July 30, 1998, instead of the correct date: **June 30, 1998.*

Oklahoma City
Community Foundation

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