



Oklahoma City
**Community
Foundation**

the adviser

a newsletter for legal and financial advisers
July 2001



Seminar Provides Valuable Advice for Financial Planners to Help Assist Clients

More than 100 financial planning professionals sharpened their skills by participating in the Community Foundation's seminar on choosing a charitable entity and estate planning strategies for charitable gifts.

Featured presenter Chris Hoyt, professor of law at the University of Missouri's Kansas City School of Law, led the three-hour seminar. Hoyt walked professionals through factors to consider when choosing between a private foundation, advised fund or supporting organization. His presentation and printed materials listed advantages and disadvantages of each vehicle. Hoyt also covered recent court cases and Internal Revenue Service

rulings that have a bearing on choosing a charitable entity.

Hoyt also covered structuring charitable bequests from appreciated stock and real estate, individual retirement accounts and qualified retirement plans. His presentation included several examples and worksheets to make his points.

Participants responding to a program evaluation found the presentation very helpful, and the written material received high marks for its usefulness.

The Community Foundation typically offers a free seminar for financial planning professionals as part of its



Oklahoma City Community Foundation Executive Director, Nancy Anthony explains the Community Foundation's commitment to financial planners.

commitment to helping them help their clients. If you have questions about areas addressed by Hoyt, please contact Donna McCampbell at the Community Foundation, 405/235-5603 or d.mccampbell@occf.org.

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www.occf.org

Raymond Hefner Leaves A Proud Legacy

Raymond Hefner was the classic pillar of the community, the quiet man who led by example and stood strong through all the trials and gusts of Oklahoma's economic winds.

He was a trustee of the

Community Foundation from 1994 through the fall of 2000, when he reluctantly resigned because of failing health. He served as the Community Foundation's treasurer, as a member of the Investment

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OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Combined Statement of Activities- Unaudited

	Nine Months Ended March 31, 2001	Year Ended June 30, 2000
REVENUE AND SUPPORT		
Contributions	\$ 51,104,811	\$ 10,179,155
Investment income	9,415,476	10,516,602
Net investment Gains/ (Losses)	(38,894,755)	15,357,639
Change in value of split-interest agreements	-	103,507
Other income	14,398	54,051
	<u>21,639,930</u>	<u>36,210,954</u>
TOTAL REVENUE AND SUPPORT		
EXPENSES AND DISTRIBUTIONS		
Grants and program services	26,093,690	9,709,236
Investment management fees	834,200	962,338
Charitable remainder trusts & annuities payments	40,121	-
General and administrative	780,389	990,863
Development	288,637	366,102
	<u>28,037,037</u>	<u>12,028,539</u>
TOTAL EXPENSES AND DISTRIBUTIONS		
INCREASE/ (DECREASE) IN NET ASSETS	(6,397,107)	24,182,415
NET ASSETS AT BEGINNING OF PERIOD	<u>380,360,295</u>	<u>356,177,880</u>
NET ASSETS AT END OF PERIOD	<u>\$373,963,188</u>	<u>\$380,360,295</u>

Statement of Financial Accounting Standards No. 136 is not applied to the financial statements on an interim basis. For purposes of comparability, the year end numbers are also stated without those adjustments.

OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Investment Performance
Pooled Investments

	<i>Percentage Returns</i>			
	Nine Months Ended September 31, 2001	Year Ended June 30, 2000	Three Years Ended June 30, 2000	Five Years Ended June 30, 2000
EQUITIES				
Community Foundation	- 20.21	13.38	19.74	23.19
Standard & Poor's 500	- 19.54	7.26	19.68	23.83
FIXED INCOME				
Community Foundation	10.25	4.42	5.79	5.83
Lehman Int. Gov. Corp.	10.31	4.20	5.64	5.84
TOTAL FUND				
Community Foundation	- 9.89	10.30	14.29	15.78
65% S&P/35% Lehman	- 9.09	6.19	14.82	-

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.

Tax-Free Transfers of U.S. Savings Bonds to Charities and Charitable Remainder Trusts

by Chris Hoyt, Professor of Law at UMKC



CHRIS HOYT, PROFESSOR OF LAW AT THE UNIVERSITY OF MISSOURI, KANSAS CITY IS A FREQUENT SPEAKER AT LEGAL AND OTHER EDUCATIONAL PROGRAMS. HE IS WIDELY QUOTED IN PUBLICATIONS SUCH AS *THE WALL STREET JOURNAL*, *THE CHRISTIAN SCIENCE MONITOR*, *FORBES* AND *THE WASHINGTON POST*.

Many people purchased U.S. Series E (or Series EE) Savings Bonds years ago and have allowed the interest on the bonds to accumulate. Some converted the bonds into Series HH bonds in order to receive semi-annual interest payments. Owners of either Series EE or HH savings bonds are often reluctant to cash in the bonds because of the large amount of taxable interest income that they would have to recognize. They hold the bonds until death, at which time their estate or the successor owner named on the bond (often a child) will cash in the bonds and pay the income tax on the accumulated interest.

If the owner of the bonds would like to make a charitable gift at death, then giving Series EE or HH savings bonds will produce greater tax savings than a comparable gift of cash or stock. Whereas a child or estate would have to pay income tax on the accumulated savings bond interest, a tax-exempt charity, such as the Oklahoma City Community Foundation, can cash in the bonds and use all of the interest for charitable purposes.

EXAMPLE: Ms. Resident has savings bonds worth \$12,000 that she purchased for \$2,000 (the untaxed

accumulated interest totals \$10,000). She also owns publicly traded stock worth \$12,000 that she purchased years ago for \$2,000. She is considering a charitable bequest to The Oklahoma City Community Foundation of \$12,000. Her estate is under \$675,000 so it will not be subject to estate tax.

Her children will be better off if she gives the savings bonds to The Oklahoma City Community Foundation than if she gives the stock. If she gives the savings bonds, the children will receive the stock. They will get a "stepped up basis" in the stock to the date of death value (e.g., \$12,000) so that if they sell the stock for \$12,000 they will have no taxable income. By comparison, if she gives the stock to the Oklahoma City Community Foundation and her children receive the savings bonds, they will have taxable interest income of \$10,000 when they cash in the bonds. After paying as much as \$4,000 of income tax (40% tax rate times \$10,000 interest), they will have less cash than if they had received the stock. The Oklahoma City Community Foundation would have the same \$12,000 to apply to Ms. Resident's specified charitable purposes regardless of

whether it receives the stock or the savings bonds, since it is a tax-exempt charity.

If a person's estate is subject to estate tax, the IRS could collect over 76% of a savings bond's accumulated interest through a combination of estate and income taxes (see the attached table on the other side). Whereas the highest estate tax rate is 55%, the additional income tax on the savings bond interest brings the total to over 76%. Many people would rather have 100% of their savings bonds applied to a charitable purpose that was important to them in their lifetime, such as supporting their alma mater, than to have 76% used as an indirect charitable gift to the government.

HOW TO MAKE A BEQUEST OF SAVINGS BONDS

The best way to transfer savings bonds to a charity is to have a provision in your will that states that your savings bonds will become the property of the charity after your death.

For example, the will could have language similar to the following: "all of my savings bonds shall become the property of the Oklahoma City Community Foundation (or the MY NAME

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Tax-Free Transfers

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charitable remainder trust).” In that case, the estate will distribute the bonds to the charity or the charitable remainder trust and then the charity or charitable remainder trust will report the interest income when it redeems the bonds. Since the Oklahoma City Community Foundation and a charitable remainder trust are tax-exempt, no tax will be due when the bonds are redeemed.

There are ways that things could go wrong and income tax could be due. In order to correctly structure a bequest of savings bonds, you might refer your estate planner to the following article on the subject: Hoyt, “Save Taxes on Savings Bonds by Transfers to Charities and Charitable Remainder Trusts” *The Journal of Taxation*, Vol, 88, No. 2, pp. 88-94 (Feb. 1998). Some of the applicable legal authority is Sec. 691(a); Reg. Sec. 1.691(a)-4(b)(2); Rev. Ruls. 64-104, 1964-1 C.B. 223; 80-118, 1980-1 C.B. 254 and 69-486, 1969-2 C.B. 159.

Although it does not mention charitable gifts or bequests, the federal government’s internet web site contains very useful information about U.S. savings bonds:

www.publicdebt.treas.gov/sav/sav.htm.

EXHIBIT

COMBINATION OF ESTATE AND INCOME TAXES ON INCOME IN RESPECT OF A DECEDENT

EXAMPLE: Assume that a decedent’s total taxable estate is \$3,200,000 and that the estate redeems U.S. savings bonds that generate \$100,000 of interest income. The combined estate and income taxes on the \$100,000 of interest would be \$76,622, leaving the estate with only \$23,378. The amount is calculated as follows:

U.S. Savings Bonds Interest Subject to Estate Tax	\$100,000
Minus: Total Estate Tax (55%)	(55,000)
Minus: Income Tax On Distribution	
Gross Taxable Income to Estate	\$100,000
Reduced By §691(c) Deduction for	
Federal Estate Tax	
Total Estate Tax	(\$55,000)
State Tax Credit*	<u>9,600</u>
Deduction for Applicable Estate Tax	<u>(45,400)</u>
Net Taxable Income	\$54,600
Times Income Tax Rate	x 39.6%
Net Income Tax on Income In Respect Of Decedent	<u>(21,622)</u>
NET AFTER-TAX AMOUNT TO ESTATE	<u><u>\$23,378</u></u>

* The deduction for estate tax attributable to income in respect of a decedent is only for the federal estate tax; the Section 2011 state tax credit (9.6% for an estate over \$3,100,000) has therefore been eliminated. Reg. Sec. 1.691(c)-1(a).

Partners Fund: Oklahoma City's Local Alternative to Fidelity, Vanguard, and Schwab

For your clients who are looking for simple ways to accomplish charitable giving goals, the Community Foundation is offering personal charitable funds as inexpensive alternatives to establishing a private foundation.

In recent years, commercial institutions have begun offering similar funds. The Community Foundation, however, offers significant cost savings and decades of experience in providing simple and effective solutions for charitable giving.

For example, the Community Foundation's Partners Fund compares

very favorably with completing commercial funds (see table below). These are funds of \$20,000 or more established by donors who want investment performance but still want to distribute the total gift for charitable purposes. Distributions can be made in any amount at any time. A Partners Fund is a less expensive and more effective alternative to a commercial gift fund.

This fund type also provides your clients with the flexibility to respond to changing needs and interests and to make distributions according to their

time frame.

The Community Foundation provides the greatest cost efficiency and flexibility of any donor-advised fund available to your clients (see table below). Of equal importance to your client is access to the Community Foundation's 32 years of experience in helping donors effectively accomplish charitable giving goals. The Community Foundation's expertise often makes the difference in achieving your client's peace of mind regarding charitable giving.

This is particularly true with grant-making, where

the Community Foundation's extensive knowledge of specific non-profit agencies, community needs and successful programs can help your clients make informed decisions regarding distributions.

For more information, please contact Donna McCampbell at (405) 235-5603 or send an e-mail to d.mccampbell@occf.org. Additional information on donor services and the types of funds available from the Community Foundation is available on line at www.occf.org.

Partners Fund And Commercial Gift Funds

Type of Fund	Permanent/ Spendable	Minimum to Establish	Fees/Reports	Investment Options	Distributions	Sample: \$100,000 fund and 40 grants
Oklahoma City Partners Fund, A Charitable Gift Fund	Spendable	\$20,000	\$200 annual minimum, 1% on first \$100,000 .75% on next \$900,000, .5% on total above \$1 million/.28% inv. fees	General Pool unless amounts exceeds \$500,000 Options follow those for Affiliated Funds	Unlimited No minimum Assistance with developing information on potential grants	\$1,280 total costs
Fidelity	Spendable	\$10,000	1% on first \$500,000, .75% on next \$500,000, plus .45-.72% inv. fee	4 investment pools, donor allocation with minimums	\$250 minimum limit on number per year. No grant advice	\$1,600
Vanguard	Spendable	\$25,000	.45% plus .2-.3% inv. fee	3 investment pools, donor allocation with minimums	\$500 minimum \$25 charge for more than 10. No grant advice.	\$1,450
Schwab	Spendable	\$10,000	.75 on first \$500,000 plus .32-.38% inv. fee	3 investment pools, donor allocation	\$500 minimum 12-36 grants with No fee No grant advice	\$1,260

* Source: Community Foundation Strategic Alliance and Helmer N. Ekstrom and Company.

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 seeking to:

- 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 contact Donna McCampbell (d.mccampbell@occf.org). For information on starting a fund, contact Penny Voss (p.voss@occf.org). Additional information is available at www.occf.org. Phone: 405/235-5603.

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Hefner

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Committee and as a trustee of the Kirkpatrick Family Fund.

He and his wife, Bonnie, started the Raymond H. and Bonnie B. Hefner Family Fund to support their philanthropic interests and to involve their children in supporting the Community.

Through all his associations with the Community Foundation, Raymond Hefner brought insightful knowledge of investments, absolute honesty in dealing with people and the basic values of his western Oklahoma upbringing.

A native of Tipton, Okla., Hefner served in the Coast Guard, went to business school and became a Certified Public Accountant. He joined the Kirkpatrick Oil Company in 1950 as one of its first employees. In 1957, he and Bonnie formed Bonray Drilling and began a lifetime involvement in the oil and gas industry in both Oklahoma and on the national level.

Hefner was president of the Independent Petroleum Association

of America and an advisor to Presidents Reagan and Bush. Locally, as a director of Liberty Bank, he served as chairman of the board during a crucial period of recapitalization in the 1980s.

Hefner succeeded in both the oil businesses and in a variety of investments, but a lifelong passion was cattle breeding. Normally a quiet person, he became almost gregarious when talking about limousin cattle and his efforts to bring the breed into the U.S. from France. He often commented that one of the greatest challenges in his life was "figuring out how to make money in the cattle business."

Raymond Hefner contributed greatly to many Oklahoma City institutions. The greatest benefit of his involvement with all groups was the example of integrity and sound and thoughtful judgment that he always brought to the business at hand. His death on June 7 leaves a loss to the community that he served so well.



Oklahoma City

Community
Foundation

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