



Oklahoma City

Community
Foundation

the adviser

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August 1996

ABERNATHY BUILDS A LEGACY

UNIQUE GIFTS PROVIDE TAX SAVINGS, SUPPORT FOR THE COMMUNITY



"President Ford approved these planned bequests to encourage gifts and bequests to philanthropic causes.... You receive an immediate income tax deduction, and the full market value of appreciated property on your stock. In most cases there will be lower probate costs, as well as estate tax savings.... This is the way the Community Foundation will grow, and with people like you continually helping, I am confident that it won't be long until we have a major impact upon Oklahoma City."

—from a letter written by former Community Foundation executive director Nancy Berry, to Jack Abernathy, August 17, 1976

Those words were written twenty years ago, and truly were prophetic. Since then, with the help of astute donors like Jack Abernathy, the Community Foundation has steadily grown to become a major force in this community. The Foundation now has over \$150 million in assets, and is able to provide funds to local charities in excess of \$6 million each year. This is possible through the generosity and forethought of hundreds of donors like Abernathy.

His gifts over the years illustrate the flexible nature of the Community Foundation, as well as the tax savings available to donors by giving to a public charity. "You get a lot better [deduction] than if

you just turned it all over to your kids," Abernathy said. "That doesn't do you any good. It makes the kids ornery, too!"

The Foundation allows donors to pursue their charitable interests and estate planning needs in many ways, not just through cash donations. Abernathy has given stock, oil and gas properties and mineral rights to the Community Foundation. He even set up a Charitable Remainder Trust for two of his relatives, providing them with income during their lifetime, and the Community Foundation with the full value of the donation after their death.

"They are a way of jumping the generation gap," he said. "If [the remainderman] is a person, [the gift] becomes immediately taxable and you blow the purpose of the trust anyway. So you pick out something that you figure will be around for a while like the Community Foundation."

And Abernathy knows a little bit about staying power. He spent nearly forty years of his career in the oil business. Abernathy now is the board chairman of Southwestern Bank.

A native Oklahoman, Abernathy received his degree in petroleum engineering from the University of Oklahoma.

A revered businessman in this community, he has been inducted

into the Oklahoma Hall of Fame and the National Petroleum Hall of Fame, among many other honors.

But Abernathy also has a long tradition of civil service. He is a lifetime trustee of the Oklahoma Zoological Society, and has served on the boards of the Community Foundation, the Oklahoma City Chamber of Commerce and the Oklahoma Heritage Association, among others.

The fund bearing his name at the Community Foundation has benefited many organizations over the years, including the Civic Music Association, Neighbor for Neighbor, the Oklahoma City Philharmonic, and the Omniplex.

He is philosophical about his reasons for giving so much of himself to Oklahoma City. "Everybody likes to feel like they've done something, and that's one thing you can do that nobody will object to," he said.

"One of the worst things about political developments in this country across the last 70 years is that it has taken away, to a very large extent, the tradition with which our country began, to help other people who are less fortunate.

"That instinct, that social good, has almost disappeared, and that's the most dangerous thing that's happened in our country." ■



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OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Statement of Activities and Changes in Net Assets Arising from Cash Transactions

	Year Ended June 30, 1996 (Unaudited)	Year Ended June 30, 1995
REVENUE AND SUPPORT		
Contributions	\$ 8,836,977	\$ 36,384,931
Net investment income	5,126,961	4,043,800
Net investment realized gains	9,129,662	186,441
Net investment unrealized gains	<u>5,881,441</u>	<u>13,785,425</u>
TOTAL REVENUE AND SUPPORT	28,975,041	54,400,597
EXPENSES AND DISTRIBUTIONS		
Grants	5,993,401	3,918,903
General and administrative	<u>588,241</u>	<u>610,715</u>
TOTAL EXPENSES AND DISTRIBUTIONS	<u>6,581,642</u>	<u>4,529,618</u>
INCREASE IN UNRESTRICTED NET ASSETS	22,393,399	49,870,979
UNRESTRICTED NET ASSETS AT BEGINNING OF PERIOD	<u>130,407,274</u>	<u>80,536,295</u>
UNRESTRICTED NET ASSETS AT END OF PERIOD	<u><u>\$152,800,673</u></u>	<u><u>\$130,407,274</u></u>

OKLAHOMA CITY COMMUNITY FOUNDATION, INC.
Investment Performance
Pooled Investments

	<i>Compounded Annual Rates of Return</i>		
	Year Ended June 30, 1996	Three Years Ended June 30, 1996	Five Years Ended June 30, 1996
EQUITIES			
Community Foundation	26.35	17.60	13.35
Standard & Poor's 500	26.06	17.21	15.72
Indata Median	24.54	15.89	15.12
FIXED INCOME			
Community Foundation	4.60	4.77	7.61
Lehman Int. Gov. Corp.	5.02	4.99	7.70
Indata Median	5.12	5.15	8.26
TOTAL FUND			
Community Foundation	16.62	11.27	10.55
50% S&P/50% Lehman	15.54	11.17	11.78
Indata Median	15.40	11.72	12.30

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. Indata is a universe of investment managers used widely to judge performance.



Jim Holloman

MR. HOLLOMAN, AN ATTORNEY WITH CROWE & DUNLEVY, HAS WRITTEN NUMEROUS ARTICLES AND GIVEN LECTURES ON TAX, ESTATE PLANNING AND CORPORATE LAW. HE WAS APPOINTED TO THE BOARD OF TRUSTEES OF THE COMMUNITY FOUNDATION IN JANUARY BY THE CHIEF JUDGE OF THE U.S. DISTRICT COURT OF WESTERN OKLAHOMA.

Gifts of Capital Assets Reduce Income Taxes

By James H. Holloman, Jr.

Many individuals seek to enhance the quality of life in our community by donating to a charitable cause. The Oklahoma City Community Foundation, a public charity, not only allows donors to pursue their charitable interests, it also provides them with tax benefits not available when donating to private charities. The Community Foundation has received wonderful support from such individuals in its 27 years of existence, permitting it to grow to over \$150 million in total funds.

One way donors can assist in continuing this growth is by donating *highly appreciated capital assets*. These capital assets may have grown through a securities investment portfolio or by growth of a closely held business. This appreciation is likely an *unrealized* long-term capital gain (in an asset held over one year). If such a capital asset were sold, the owner would be obligated to pay substantial federal and Oklahoma state income taxes on the capital gain that is realized in the sale.

The income tax laws permit a donor to give a capital asset to the Community Foundation without recognizing the inherent *unrealized* gain on that asset. The Community Foundation can then sell the capital asset as it deems it appropriate, with the advice of the donor, without incurring any income tax consequences because of its tax exempt status. Thus, the donor can receive a

charitable contribution income tax deduction for the *full fair market value* of the capital asset without having to recognize the unrealized long-term capital gain inherent in the asset.

Income Tax Rules on Charitable Gifts of Capital Assets

A gift of a capital asset, which has been held for the appropriate time period for long-term capital gains (currently one year), to the Community Foundation, a public charity, is deductible to the donor for both federal and Oklahoma state income tax purposes at the asset's fair market value without regard to the donor's income tax adjusted basis. This gift does not create a reportable long-term capital gain to the donor upon the asset's transfer to the Community Foundation. However, under Internal Revenue Code Section 170(b)(1)(B), the aggregate amount of deductions for such gifts of long-term capital gain assets to public charities is 30 percent of the donor's adjusted gross income instead of the normal 50 percent of the donor's adjusted gross income limit for cash gifts to public charities. A special rule permits an increase of the limit to 50 percent if the donor elects to limit the deduction to only the donor's adjusted basis in the capital asset. This special rule, however, is only advanta-

geous to a donor where there is not substantial appreciation in the capital asset.

In addition, in evaluating a gift of a long-term capital asset to the Community Foundation, the IRS Code limits itemized deductions if the individual donor has adjusted gross income in excess of a threshold amount (\$114,700 for 1995,

subject to an annual inflation adjustment). Under this limitation, if a highly appreciated capital asset is sold, the adjusted gross income of the owner is increased by the amount of the long-term capital gain recognized; therefore, an additional

income tax burden occurs by reason of the donor's itemized deductions equal to the income tax rate on 3 percent of the recognized long-term capital gain.

Example of Substantially Reduced Income Taxes with Charitable Gift

As a result of the foregoing income tax rules, a donor who desires to contribute some value to the Community Foundation can substantially reduce his or her income taxes on a sale of a *highly appreciated capital asset* by diverting a major portion of those taxes into a gift to the Community Foundation instead of paying those amounts in taxes to the IRS and the Oklahoma Tax Commission. Stated simply, for charitable contributions below



"THE DONOR CAN RECEIVE A CHARITABLE CONTRIBUTION INCOME TAX DEDUCTION FOR THE FULL FAIR MARKET VALUE OF THE CAPITAL ASSET WITHOUT HAVING TO RECOGNIZE THE UNREALIZED LONG-TERM CAPITAL GAIN INHERENT IN THE ASSET."

the 30 percent of adjusted gross income limitation, the economic cost of a charitable contribution of a *highly appreciated capital asset* will be allocated approximately 70 percent to reduced federal and Oklahoma state income taxes and approximately 30 percent to reduced after-tax proceeds to the donor. These percentages will vary depending upon the proportion of unrealized appreciation in the long-term capital asset. Please consider the following example assuming that the donor owns a highly appreciated long-term capital asset worth \$100,000, with an adjusted basis of \$1,000, for a potential long-term capital gain of \$99,000 and the combined income tax rate on long-term capital gains is 35 percent (28 percent federal and 7 percent Oklahoma).

The example below indicates substantial savings. Of course, the actual amount of unrealized

long-term capital gain and the donor's tax bracket (the long-term capital gains tax rate could change), would alter the exact computation amounts. However, the example does illustrate the benefit of donating highly appreciated long-term capital assets instead of simply selling such asset and making charitable contributions with after-tax proceeds.



Situations for Use of Capital Gain Asset Charitable Gifts

Portfolio Securities - Many times individuals have accumulated substantial investment securities in their portfolio. Circumstances arise in which sales of such securities are appropriate or are required. For example: A publicly traded company, perhaps in a high growth industry, is the target for merger and/or acquisition

by another company, and a cash buyout will be required for shareholders of the target company. Alternatively, a publicly traded company may be in a period of long-term decline of its industry and therefore the sale of such security is a prudent investment management decision in order to reduce investment risk exposure to the portfolio.

Closely Held Businesses - A family or other closely held business that was started by the donor or has greatly increased in value over a number of years of operation may be ready for sale by reason of retirement or family estate planning. In such circumstances, the Community Foundation, as a public charity, can receive gifts of interests in such closely held businesses and can then participate in the transaction in which disposition of the business occurs.

EXAMPLE

SALE TRANSACTION ITEMS	DONOR SALE OF 100% OF CAPITAL ASSET	SALE OF 70% & GIFT OF 30% TO FOUNDATION
SALE PROCEEDS	100,000	70,000
DONOR'S ADJUSTED BASIS	1,000	700
LONG TERM CAPITAL GAIN [1-2]	99,000	69,300
CHARITABLE CONTRIBUTION TO FOUNDATION	-0-	30,000
INCOME TAXES (PAYABLE) [3x35%]	(34,650)	(24,255)
TAXES SAVED ON CHARITABLE CONTRIBUTION [4x35%]	-0-	10,500
TAXES (INCREASED) ON ITEMIZED DEDUCTIONS [3x3%x35%]	(1,040)	(728)
AFTER TAX PROCEEDS TO DONOR [1-5+6-7]	64,310	55,517
TOTAL INCOME TAXES (PAYABLE) [-5+6-7]	(35,690)	(14,483)
DONOR AFTER TAX PROCEEDS TO FOUNDATION [58-68]	-0-	8,793
INCOME TAXES DIVERTED TO FOUNDATION [59-69]	-0-	21,207

Methods for Charitable Gifts to the Community Foundation

As identified in the preceding example, a gift can be made of a portion of the highly appreciated capital asset shortly before the intended sale. In addition, these methods can be incorporated with the use of charitable remainder trusts in which similar income tax savings can be achieved.

The Community Foundation is happy to assist prospective donors in the planning and execution of these types of transactions. Please contact Nancy Anthony, Executive Director, at 405/235-5603 for further information. ☐

Investment performance adds value to gifts

The investment committee of the Oklahoma City Community Foundation is committed to ensuring the continued growth of the Foundation's assets.

The Foundation has a long history of continued growth and financial strength, which demonstrates both the commitment of donors and the added value of strong investment performance.

The combined funds of the Community Foundation are considered by the Trustees to be the "community's endowment." They are entrusted with ensuring that these funds perform well and provide perpetual funding for local non-profits, 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 Foundation is able to provide fund management services to donors at a nominal cost. This makes the Community Foundation a simple and flexible vehicle for donors' financial planning goals, as well as for their charitable interests.

A diversified investment portfolio is managed by the trust departments of three local banks: Boatmen's Bank, Liberty Bank and Bank of Oklahoma. An independent investment counsel, James K. Hotchkiss of Hotchkiss & Assoc. in Chicago, helps set investment policy and monitor investment performance. The funds are pooled so that the smallest funds receive the same investment services as the largest ones. The Investment Committee reviews fund performance quarterly based on the investment objectives of the Community Foundation.

For Fiscal Year 1996, the pooled investment funds had a total return of 16.62 percent. In the past five years, the average fund has increased in value by more than 43 percent through investment performance and additionally has received cash distributions of 32 percent. Grant distributions are expected to reach \$7 million in

1997.

Since 1985, the Community Foundation's assets have increased from \$20 million to more than \$150 million.

The long-term nature of the Community Foundation requires as one investment objective an investment policy which guards against the erosion of capital from inflation. Over the long term, equities appear to be the most available hedge against inflation.

A second and closely related investment objective is capital preservation. This objective directs that the portfolio of securities be of high quality and with relatively low risk of principal loss.

The Community Foundation, by accepting charitable funds which are intended to provide annual endowment support for a number of charitable organizations, needs a continuing source of income to provide this support. This

income should be provided while preserving principal.

Investment performance is judged over a three to five year time horizon. Performance on equity investments is expected to exceed the Standard and Poor 500 Common Stock Index over a three to five year period. Performance on Fixed Income investments is expected to exceed the Lehman Intermediate Government/Corporate Bond Index over a three to five year period, and performance of cash investments (maturities of less than 12 months) are expected to exceed the Donahue Money Market Index on an annual basis. The Investment Committee expects the total return for a three to five year period to be in the top one-third of managers in a balance fund universe.

The Community Foundation's growth and its impact on the community is a testament to the value good financial management adds to the generosity and careful planning of donors. ☐



INVESTMENT COMMITTEE MEMBERS



Raymond Hefner, Jr.
President, Chairman and Chief Executive Officer of Bonray, Inc.



Linda Petree Lambert
President of Lasso Corp., a diversified investment corporation.



Eleanor Maurer
Past President of Kirkpatrick Oil Co. and long-time officer of the Community Foundation.



Frank A. McPherson
Chairman and Chief Executive Officer of Kerr-McGee Corp.



George J. Records
Chairman of Midfirst Financial Group.



James R. Tolbert, III
Chairman and President of First Oklahoma Corporation.

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 more information, contact Nancy Anthony at 405/235-5603.

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 Nancy B. Anthony, *Executive Director*
and Assistant Secretary
 Carla S. Pickrell, *Comptroller*
and Assistant Treasurer

TOP 20 GRANTMAKING FOUNDATIONS IN OKLAHOMA

FOUNDATION NAME	TAX YEAR	ASSETS	LOCATION
DONALD W. REYNOLDS FOUNDATION	6/30/95	\$909,752,348	TULSA
THE J. E. & L. E. MABEE FOUNDATION, INC.	8/31/95	\$585,483,727	TULSA
THE SAMUEL ROBERTS NOBLE FOUNDATION, INC.	10/31/95	\$578,644,517	ARDMORE
THE WILLIAM K. WARREN FOUNDATION	12/31/93	\$294,178,026	TULSA
THE OKLAHOMA CITY COMMUNITY FOUNDATION*	6/30/96	\$152,800,673	OKLA. CITY
PRESBYTERIAN HEALTH FOUNDATION	9/30/95	\$131,047,000	OKLA. CITY
SARKEYS FOUNDATION	11/30/94	\$58,878,986	NORMAN
H. A. & MARY K. CHAPMAN CHARITABLE TRUST	12/31/95	\$54,322,618	TULSA
THE GLASS-GLEN BURNIE FOUNDATION	12/31/95	\$46,020,285	NOWATA
CHARLES & LYNN SCHUSTERMAN FAMILY FUND	11/30/95	\$38,839,719	TULSA
JOHN STEELE ZINK FOUNDATION, INC.	10/31/94	\$38,736,839	TULSA
MERVIN BOVAIRD FOUNDATION	12/31/95	\$37,894,167	TULSA
MCCASLAND FOUNDATION	12/31/94	\$29,797,177	DUNCAN
ROBERT S. & GRAYCE B. KERR FOUNDATION, INC.	12/31/94	\$29,602,200	OKLA. CITY
PEARL & JULIA J. HARMON FOUNDATION	5/31/95	\$27,575,359	TULSA
GRACE & FRANKLIN BERNSEN FOUNDATION	9/30/95	\$26,515,268	TULSA
THE KERR FOUNDATION, INC.	12/31/94	\$23,776,048	OKLA. CITY
EDWARD & HELEN BARTLETT FOUNDATION	12/31/95	\$21,845,848	TULSA
THE OXLEY FOUNDATION	6/30/95	\$16,720,581	TULSA
LYON FOUNDATION	12/31/95	\$16,697,526	BARTLESVILLE

These figures are based on the most recent IRS Form 990PF available in the State Attorney General's files. Private Foundations are required by law to provide a copy of their 990PFs each year. The files are kept at the Oklahoma Medical Research Foundation, 825 N.E. 13th Street, Oklahoma City, 405/271-7230.

**Financial data supplied by the Community Foundation. The Community Foundation is a 501(c)(3) public charity, and not required to file a return with the Attorney General's office.*



Oklahoma City

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Foundation

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