Presenting:

The Kosciusko County Foundation

An Audio White Paper Prepared For
The Kosciusko Leadership Academy
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Hosted by: Suzie Light and Warren Kahn

The mission of Kosciusko County Foundation is to encourage and serve donors and their community by building philanthropic endowments for the betterment of the people of Kosciusko County, now and in the future.

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INTRODUCTION

Welcome to "Presenting the Kosciusko County Foundation," an audio White Paper prepared for the Kosciusko County Leadership Academy Class of 1995. Your hosts for this presentation are Suzie Light, executive director of the Kosciusko County Foundation and Warren Kahn, vice president & trust officer, First National Bank of Warsaw.

Over a community foundation such as the Kosciusko County Foundation is established to provide funds to meet community needs, to serve as a catalyst for projects important to the community, and to offer charitable- minded citizens an alternative means for making an impact on the quality of life in their community. Over the next 25 minutes we will hear from four community leaders. Each of our four guests will offer their own unique perspective, which will help the listener to develop and appreciation the concept of a community foundation. Hopefully, at the conclusion of this presentation, the listener will have a better insight to the numerous advantages of including the Kosciusko County Foundation in their planned giving framework.

Let us begin this informative presentation with Suzie Light and her first guest, Mr. Robert Boley.

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Mrs. Light:

Today we are speaking with Bob Boley, long-time Kosciusko County businessman. Bob is the former executive vice president of First National Bank of Warsaw. Bob, now that you are retired, do you want to tell us how you spend you time?

Mr. Boley:

Suzie, I'm still somewhat involved in community service, but I've been retired for ten years. One of the great things I learned early on is that being retired means I no longer have to account for my time.

Mrs. Light:

Well Bob, we would like you to spend some time with us today. Please tell us what a community foundation is?

Mr. Boley::

A community foundation exists to provide funds for community needs. It does this by developing and preserving charitable endowments and distributing the earnings of those funds for the enrichment of the lives of the citizens of the community. It is a tax-exempt, independent, publicly-supported, philanthropic organization, created and operated as a permanent collection of endowed funds for the long term benefit of a defined geographic area.

Mrs. Light:

When did our community foundation begin?

Mr. Boley:

Well, it began in 1968 as the Greater Warsaw Area Foundation, and is, I believe, the most flexible, convenient, and dependable vehicle for charitable giving available to us today. In 1972, far-sighted board members broadened the scope for the foundation to include the entire county, and reflecting that action changed the name to the Kosciusko County Foundation. The foundation is governed by a volunteer board of twenty-four members who are chosen for their knowledge and experience in community service. The composition of the board provides leadership, financial acumen, validity, and ties to the communities that make up our county.

Mrs. Light:

Bob, we have heard about private foundations making grants to community foundations. Has this happened at the Kosciusko County Foundation?

Mr. Boley:

Why, yes. The Kosciusko County Foundation received a challenge grant from Lilly Endowment, a private foundation. It works like this. For every dollar placed in a permanent endowment by local citizens, Lilly Endowment matched it with fifty cents. Kosciusko County Foundation was challenged to raise one million dollars by July, 1995. Through the generosity and commitment of many community minded donors, Kosciusko County Foundation met the match more than one year before the deadline. In place now is a half a million dollars for unrestricted endowment! There may be future opportunities for matching dollars through other foundations and our foundation is actively seeking those opportunities.

Mrs. Light:

Bob, you have mentioned endowment and unrestricted funds. Please explain.

Mr. Boley:

With the Kosciusko County Foundation, an endowment fund is typically where a sum of money is placed into trust with the Foundation. Earnings from this invested principal are used to support the charitable needs of the community while the principal remains intact. Contributors

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may establish an endowment of their own, or they may contribute to an existing fund. Their are several types of endowment funds.

Mrs. Light:

Would you name some of the different funds, Bob?

Mr. Boley:

Okay. Let's begin with the Unrestricted Fund. This fund allows the greatest flexibility for meeting the changing needs of our community. The donor recognizes that the group of living men and women who make up the Foundation's board of directors is better able to assess the current needs than a written document might be, which because of changing conditions may become out-dated and in many cases cannot be amended.

Secondly, the Designated Fund. The donor sets up a fund with Kosciusko County Foundation, then donates to the fund while living, or by providing a bequest in his or her will. The donor asks Kosciusko County Foundation to distribute the income to favorite charities in pre-determined percentages or amounts. Donations are sent yearly to the named charities. Funding with monies from ones estate is especially appealing to the potential donor with limited liquidity.

I think the next fund we should discuss is the Donor Advised Fund. The donor or an advisory committee named by the donor gives the Foundation recommendations for distributions from time to time. Those donations would be made to charitable organizations. These recipient organizations may change from time to time.

Mrs. Light:

Bob, we have had several people inquire about the Field of Interest Fund. Would you explain that fund please?

Mr. Boley::

Well, we all have different interests. When we think about which charities to support or what areas we want to help, we need not confine our efforts to a few charities. We can choose health, art, education, environment or any others that interest us.

We round out the list with the Scholarship Fund, where earnings are awarded to deserving young people to assist them in their educational goals.

Mrs. Light:

Bob, how does the foundation manage the money donated to it?

Mr. Boley:

Good question. The funds received are entrusted to area financial organizations for professional investment management. Investment objectives include safety of principal, yet seeking opportunities for growth and income for each donor's chosen charitable beneficiaries.

Mrs. Light:

Thank you Bob for helping us understand what a community foundation is and specifically how the Kosciusko County Foundation operates to benefit our local community.

Mr. Boley:

Thank you Suzie. I have enjoyed being here.

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Mrs. Light:

Joining us now is Don Frantz. Don has served on the founding Board of Kosciusko County Foundation and has made significant contributions of time and talent throughout Kosciusko County. Don retired as the Purdue University extension agent in Kosciusko County and then started his second career as a radio public affairs and editorial writer. He retired from news business several years ago and enjoys retirement as an active community volunteer. Recently, Don and his wife Mildred have established an endowed fund. Don, can you tell us a bit about why you and Mildred chose to establish an unrestricted fund within KCF?

Mr. Frantz:

I would be happy to. Mildred and I enjoy our community and felt we wanted to give something back. We recognize the needs of the community will change over time, and we have confidence in the Foundation's Board who will be able to make decisions based on current circumstances in our community. Year after year the entire responsibility for selecting the most appropriate charitable recipients rests on the shoulders of the dedicated Grants Committee and Board of Directors. Such an all-purpose fund is the most flexible in responding to the changing charitable needs of our community. We like to think of the Kosciusko County Foundation as being a permanent guardian of our community's charitable assets.

Mrs. Light:

Don, say I want to establish a fund or contribute to an existing fund—how would I go about doing so?

Mr. Frantz:

Well, there are many ways. Cash contributions are always acceptable—you just write out a check. A named endowment fund can be established with as little as $5000. Then, you may add to it as you can afford to. The fund will grow, and you will receive a full tax deduction for each gift in the year you make it. Only the income generated by the money, which you contribute, will be distributed—depending on the type of fund you establish.

Naturally, securities are another source with which to make a contribution. Securities—especially highly appreciated financial assets or real estate—make excellent contributions. If you were to sell significantly appreciated assets, you incur capital gains tax. However, by making a gift of these assets, you receive the maximum allowable tax deduction for the full market value, and you may be able to spread the deduction over more than one year.

Another way to contribute is by charitable bequests. Simply name the Kosciusko County Foundation, in a will or testamentary trust, as a recipient of a gift upon the donors death the Kosciusko County Foundation will receive the bequest. A gift of this nature may be a way to reduce taxes otherwise payable by the estate.

We also can include life insurance in our list of available gifts. Let's say you have been paying premiums on a policy for years and, now, you no longer need the financial protection the policy offered earlier in your life. You may donate the policies to your fund. When the policy matures, the Foundation will receive the proceeds and apply them to your designated wishes. Your fund then becomes a great way to continue doing good work in your name permanently—a living symbol of your caring and concern

And finally, there are several opportunities to make planned-giving trust arrangements as a way of creating charitable contributions, and they should be done with the advice of your attorney, accountant or financial planner.

Mrs. Light:

Don, do you have any closing thoughts regarding our Community Foundation that you would like to share?

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Mr. Frantz:

There must be a lot of people—like myself—that want to give something back to their community that has been so good to them. Kosciusko County has been a wonderful place to live and contributing through the Foundation is a way to say thank you.

Then there is a thought that I first heard in a graduate course at Cornell University, many years ago. It's that tax funds—at all levels; local, state and national—will be less available as time goes on to meet the needs of the community. Those communities which have accumulated funds through community foundations will be the ones in a better position to do things that makes them more successful and a more desirable place to live.

Mrs. Light:

Thank you, Don, for sharing your personal thoughts on gifting and explaining the numerous giving opportunities available through the Kosciusko County Foundation. Our program continues with my co-host Warren Kahn.

Mr. Kahn:

Thank you Suzie. Joining us now is Stan Pequignot, a partner in the Warsaw law firm of Rockhill, Pinnick, Pequignot, Helm & Landis. Like our two previous guests, Mr. Pequignot is a member of the Warsaw Rotary Club. Stan, thank you for participating on our panel. Are contributions to the Kosciusko County Foundation deductible?

Mr. Pequignot:

Yes. Contributions to the KCF are tax deductible within the parameters of the Internal Revenue Code. Gifts which can be used by the KCF immediately qualify for the greatest deduction, however, split interest gifts also have favorable tax benefits.

Mr. Kahn:

What, actually, do you mean by a split interest gift?

Mr. Pequignot:

If I may, I would like to use an illustration to answer the question.. Let's say we have a retired couple who, through years of hard work, have been able to accumulate a sizable amount of assets. They can create a specific charitable trust known as a charitable remainder unitrust—CRT for short. The couple may contribute either cash or assets to the CRT, receiving an income tax deduction for the actuarial value of the gift going to charity. During the joint lifetimes of our couple, they will receive a fixed percentage of the trust's annual market value—normally an amount between 5 and 8 percent each year. The amount going to the life beneficiaries will vary each year, based on the market value of the trust's assets. When either of the spouses die, the income will continue for the survivor. When the surviving spouse dies, the remaining trust assets become payable to the charity designated by the couple. This remainder interest going to charity qualifies for an estate tax charitable deduction.

Mr. Kahn:

Can this type of trust be created as a testamentary trust?

Mr. Pequignot:

Absolutely, a testator may provide a life income for a surviving spouse or some other family member. Under these circumstances, the decedent's estate will qualify for an estate tax charitable deduction. I would like to mention that because of the charitable estate tax deduction, the family member receiving the life income may actually receive a larger benefit than would otherwise be possible had no charitable deduction been available.

Mr. Kahn:

Stan, are there other trust arrangements which can provide income to a surviving spouse and a remainder interest to charity while preserving a tax benefit?

Mr. Pequignot:

There is a trust known as a qualified terminable interest property trust, Q-Tip for short. This trust has two distinct tax benefits. First of all, the trust qualifies for the marital deduction, which means that all the assets placed in trust are not subject to estate taxes on the death of the first spouse. To qualify, the surviving spouse must be given the right to all the trust income and the assets of the trust are includable in the surviving spouse's estate. However, when a charitable beneficiary is named, the surviving spouse's estate receives a charitable deduction for the full value passing to charity.

Unlike the CRT, the trustee of a Q-Tip may be given discretion to invade the trust's principal for the benefit of the surviving spouse. This invasion right can significantly increase the advantage of the Q-Tip. The invasion right does not jeopardize either the marital deduction or the charitable deduction.

Mr. Kahn:

Stan, so far we have discussed trust arrangements, which provide income to a family member and a deferred gift to charity. Are there any trust arrangements, which provide just the opposite—income to charity and the return of principal to the family?

Mr. Pequignot:

Yes, there are. Donors can fund what is known as a charitable lead trust. They are very complex arrangements and should only be funded after extensive consultation with an accountant and attorney. There are primarily three types of charitable lead trusts. In the most common form, known as a "non-reversionary charitable lead trust", income is paid to a charity for a set number of years. The donor is not taxed on the income nor does the donor receive a charitable deduction. However, the remainder interest going to the donor's family is not included in the donor's estate having been subject to gift taxes at the creation of the trust. Since a charity receives a specified income interest, the gift taxes are assessed only on the actuarial value of the remainder interest passing to the family, which in many cases is only a fraction of the total value of the gift. Basically, a charitable lead trust is a means of accomplishing wealth transfer with discounted estate tax dollars.

Mr. Kahn:

Thank you for summarizing the tax advantages of charitable trusts for our listeners. Before we close, I have one additional question. What is the advantage of naming KCF as the receiving charity?

Mr. Pequignot:

The primary advantage is that the KCF is already a multipurpose, qualified, on-going charity administered within the guidelines of the Internal Revenue Code. If a donor was to create an endowment for the expressed purpose of granting scholarships, awards, or to benefit a particular field of interest—say historical preservation—it would first be necessary to have that endowment qualify as a charity to ensure that contributions would be tax deductible. By naming the KCF as the designated charity for a particular purpose or field of interest, there is no need to obtain IRS approval nor is it necessary to file an annual information return with the IRS. The KCF accepts responsibility for maintaining qualified status for all gifts and endowments it receives. Moreover, donors have the added peace of mind of knowing that their charitable gifts will receive ongoing stewardship by an informed conscientious group of local citizens.

Mr. Kahn:

Once again, Stan, thank you for participating in our presentation.

Mr. Kahn

Our final panelist is John Elliott, senior vice president and trust officer for First National Bank of Warsaw. John is a long-time Warsaw resident and is actively involved in many community projects, particularly those benefiting our youth. John, our previous commentators have referred to trust arrangements when considering a gift to benefit the Kosciusko County Foundation. Could you explain to our listeners how a trust operates.

Mr. Elliott:

There are several different ways a trust can be utilized in a planned giving arrangement. I would like to give some examples to illustrate their usefulness.

Mr. Kahn:

Please do.

Mr. Elliott:

Thank you Warren! We have been very fortunate in this community to have many people interested in establishing scholarship and loan funds for graduates of our county high schools. Area banks with trust departments have been instrumental in administering these education funds, providing investment advice, asset safekeeping, record keeping, as well as coordinating the selection of scholarship recipients and loan awards.

When someone establishes to create an educational fund independently of the Kosciusko County Foundation, it would be necessary, as Stan mentioned, for that educational fund to gain IRS approval as a qualified charity. However, if someone creates an educational fund through the Kosciusko County Foundation and designates that those funds are to be used for educational purposes, the donor is assured the educational fund will receive tax-exempt status, and the funds will be managed by a permanent organization. The economy of scales, available through a community foundation, allow more to be spent on the donor-intended purpose. From my perspective this is clearly a win/win situation for the donor, KCF and, of course, the community.

Mr. Kahn:

Mr. Pequignot referred to split-interest trusts. Can you tell us about how they are administered by a corporate trustee?

Mr. Elliott:

The split-interest trust is an irrevocable trust, which means that once it is created, it cannot be revoked or amended. During the time that the donors are receiving the trust income, the trustee is responsible for investing and distributing income to the donors. If the split-interest trust is a unitrust, the trustee may also be responsible for determining the annual payout to the life beneficiaries. In addition, the trustee has responsibility to insure that the informational income tax return is prepared each year by an accountant.

Mr. Kahn:

John, how is the life beneficiary taxed on the money they receive from the split-interest trust?

Mr. Elliott:

A tier arrangement is in place for the purpose of determining the tax consequences of distributions from split-interest trusts. To the extent that a trust has taxable income, the donor or beneficiary will first receive ordinary income, then, capital gains, followed by tax-exempt income and, finally, return of principal. Let's say we have a $100,000 unitrust with a 6 percent annual payout requirement. The funds are invested in income stocks with an average yield of 4.5 percent and capital gains averaging $3000 per year. The beneficiaries are entitled to $6000 per year, 6 percent of $100,000. In this case, the trust receives $4500 a year in dividends. So the first $4500 of the $6000 distribution is made up entirely of the dividends, which are ordinary income. The balance of the $6000 distribution consists of $1500 in capital gains. The remaining $1500 in capital gains remains in trust and is not subject to trust income taxes.

Mr. Kahn:

Must a unitrust be created and funded all at once, or can a donor make a series of gifts to the trust?

Mr. Elliott:

That's another nice feature of a CRT. The donor has a choice. They may make a one-time contribution, or they can make a series of donations. Each new gift will result in another charitable deduction. I would like to mention one other tax advantage of a charitable remainder trust.

Assume we have an elderly widow who owns a substantial interest in one common stock. Her cost basis is very low in comparison to the current market value. If the stock was sold and the proceeds repositioned in another investment, which paid more in the way of income, there would be a capital gain on the sale of the stock, thus eroding the amount of money that could be reinvested. On the other hand, if the stock was contributed to a charitable remainder trust, the stock could be sold and the donor would only be taxed on the required annual distribution. The proceeds from the sale of the stock could then be reinvested in securities with a higher current yield, thereby increasing the amount of income going to the donor.

Mr. Kahn:

How does the Kosciusko County Foundation fit in the picture?

Mr. Elliott:

By virtue of being a qualified charity, the KCF can be named as the remainderman for the charitable remainder trust. As Don Frantz mentioned, the donor has the option of making an unrestricted gift to KCF or designating a particular endeavor—such as a scholarship fund; or, the donor can choose to have the trust continue and have the income paid to their favorite charities specifying the amount or percentages going to each charity. If one of the designated charities ceases to function, the KCF will then find a charity with a similar purpose, thereby keeping the gift directed towards the purposes for which it was intended.

Mr. Kahn:

John, we appreciate your participation in our discussion.

For further information on establishing a planned giving program through the Kosciusko County Foundation, we invite you to write the Kosciusko County Foundation, 117 West Center Street, Warsaw, IN 46580; or, call area code 219/267-1901. This audio production is made possible through financial support provided by the First National Bank of Warsaw and the Kosciusko County Foundation. This concludes our program. Once again, we would like to thank our distinguished panel, Mr. Robert Boley, Mr. Don Frantz, Mr. Stan Pequignot and Mr. John Elliott, for their valuable input.

ANNOUNCER:

The information in this program is intended to afford general guidelines on matters of interest to the public. The application and impact of tax laws can vary widely on a case-by-case basis. Accordingly, the information contained in this recording is not intended to replace legal, accounting or tax advice. Listeners are advised to consult with their professional advisors before making a decision to fund a charitable gift through the Kosciusko County Foundation.

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