

# Professional Advisor Handbook

*A resource provided by*



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# **Introduction to Permian Basin Area Foundation**

## **Mission**

Permian Basin Area Foundation facilitates the creation of permanent charitable funds in partnership with many donors, and provides grants to address changing community needs and enrich the quality of life in the Permian Basin.

## **History**

The first community foundation was founded in 1914, when Cleveland banker Frederick Goff created an organization that would manage permanent funds for charitably-minded citizens and, on their behalf, distribute grants to help local causes. Community foundations spread coast to coast as the virtues of Goff's concept became evident to civic leaders. Today, there are approximately 700 community foundations across the U.S. with assets of approximately \$45 billion under stewardship. Permian Basin Area Foundation was founded as an independent community foundation in 1989 with initial funding of \$400,000. As of December 31, 2009, the Foundation's assets totaled more than \$53 million with over 220 permanent funds. Grants for 2009 totaled approximately \$3.2 million. The Foundation was certified as compliant with National Standards for U.S. Community Foundations in 2006.

## **Nonprofit**

The Foundation is an independent 501(c)(3) organization, and contributions are tax deductible to the full extent permitted by law. Donors may choose charitable organizations or specific areas of interest, or devote undesignated funds to meet the variety of philanthropic needs at the direction of the Foundation's Board. The donor may choose a name for his or her permanent fund or retain anonymity, which will be dutifully honored.

## **Perpetual Life**

The vision for the Foundation is to be a permanent philanthropic endowment for providing resources for serving people and people-serving organizations in our region. We are the caretakers for permanent funds that will long outlive their donors, our staff and the Foundation's Board of Governors. We expect that living donors will create funds designed to last well into the future. If someday the need for the fund passes, our Board of Governors will find the nearest possible use for the money by applying the variance power set forth in our governing documents. As an example, a fund that may have been created for the purpose of preventing polio, a disease now eradicated, could be redirected to a disease yet incurable.

### **Financially Responsible**

Among the Foundation's fiduciary responsibilities to donors and agency endowments, none is more important than the prudent investment of assets. The Foundation's Investment Committee is composed of astute financial managers and leaders from the Board of Governors and the business community-at-large. This committee sets investment policy and oversees the performance of the investment managers who are reviewed quarterly.

### **Convenient**

Creating a charitable fund is simple and drafting a fund agreement can take just a few minutes after we learn the donor's charitable intent. We also welcome the opportunity of working with professional advisors on behalf of a client.

### **Efficient**

At Permian Basin Area Foundation, each fund shares the costs of operations and administration. Fees to support Foundation services are minimal, currently at one percent (1%) annually. Our Board periodically reviews these fees to assure they are as economical as possible while meeting the Foundation's expenses for administrative services and operations.

### **Flexible**

In a relationship with Permian Basin Area Foundation, donors may embrace the general charitable goals of the Foundation, direct their gifts toward needs of a specific community or nonprofit organization, or select certain causes to support, such as assisting the elderly or providing scholarships to high school graduates.

### **Geographically Focused**

The focus of Permian Basin Area Foundation is on the communities of our region. We know the people, the institutions, the cultural fabric, and the social issues of this region we call home. Donors benefit from this body of knowledge and understanding when they adopt our general goals or choose a broad field of interest for their fund. Grants from these funds are spent in our home territory where we can monitor changing conditions and respond to emergencies.

### **Leadership Dedicated to Service**

The Board of Governors of Permian Basin Area Foundation provide leadership and diligent stewardship for funds contributed to the Foundation. Serving without compensation, the Governors approve all grants, review investment performance and provide strategic planning for the Foundation. The men and women who make up our Board of Governors are among the Permian Basin's most distinguished civic and business leaders. Collectively, they offer extensive knowledge of our region and experience in institutional management, law, finance and philanthropy. Each Governor serves a maximum of two consecutive three-year terms.

## A Checklist for Giving

This checklist may help your client decide what to give and when to create a fund in Permian Basin Area Foundation. For more information about these giving options, please call our office.

You client wants to:	We suggest that your client:	In order to:
Reduce income taxes	Contribute cash or other assets outright	Receive a current income tax reduction with a five year carry-over for the unused amount  Distribute gifts now or later
Reduce income taxes and avoid capital gains tax on sale of appreciated assets	Contribute appreciated assets outright  Or  Contribute appreciated assets and deduct the donor's basis only	Receive income tax deduction for asset's full market share  Avoid capital gains tax <hr style="border: 0.5px solid black;"/> Contribute full value to charity  Possibly receive a greater current tax deduction  Avoid capital gains tax
Avoid the significant tax burdens to his estate of an IRA or Qualified Retirement Plan	Name the Community Foundation as beneficiary of the plan	Avoid income tax on the plan distributions  Receive a charitable deduction to estate tax
Reduce income taxes and retain income for self, spouse or other beneficiary	Establish a charitable remainder trust during lifetime	Receive life income based on full market value or assets  Realize increased yield from stocks, bonds or real property through tax-free reinvestment and tax-sheltered growth  Obtain current income tax deduction for value of future gift to charity  Assign life income to spouse  Replace value of contributed asset in estate through optional purchase of life insurance using income tax savings

You client wants to:	We suggest that your client:	In order to:
Reduce income tax and contribute residence, farm or ranch to charity at death	Create a life estate with remainder to the Permian Basin Area Foundation	Retain lifetime use of residence Reduce a taxable estate Receive a current income tax deduction with a five year carry-over for the unused amount
Reduce estate tax and contribute part or all of estate to charity	Make a gift by will	Receive estate tax deduction based on full market value of appreciated assets Create permanent support for favorite causes Simplify administration of charitable bequests Make larger gift than may be possible during life Make gift contingent on prior death of beneficiary
Reduce estate tax	Create a charitable remainder trust by will	Provide income to beneficiary for life and then benefit charity
Pass assets to family while minimizing income and estate tax	Establish Charitable lead trust during life or by will	Provide annual income to charitable fund for specific number of years Return assets to family after this period of time Reduce estate and gift taxes on property passing to heirs, based on length of trust and value of payout
Contribute asset that is no longer needed in later life	Contribute life insurance policy	Realize income tax deduction Deduct premium payments as charitable contributions
Reduce estate tax and protect spouse from financial emergencies	Create a Q-Tip Trust with a charitable remainder	Pay life income to spouse Pass assets to charity after spouse's death Allow trustee to invade principal for spouse's benefit

*This checklist has been prepared for the Foundation by legal counsel and professional tax advisors to serve as a resource, not as specific advice. Because situations vary, we encourage each individual to seek tax and legal advice.*

## **Comparison of Donor Advised Fund to a Private Foundation**

Many people who are financially positioned to provide sustaining support for charitable causes consider private foundations for achieving this objective. Private foundations allow donor control over distributions and board member selection, but are highly regulated by the government. Establishing a private foundation involves an extensive application process with the IRS. Ongoing requirements include the burdens of administration, excise taxes, and a mandatory annual payout of assets.

A simple alternative to establishing a private foundation is creating a donor-advised fund with Permian Basin Area Foundation. A donor-advised fund is created by a simple written agreement with assets conveyed by a donor who wishes to influence which charitable causes are supported by the fund. The Permian Basin Area Foundation is a 501 (c) 3 organization, and contributions to a donor-advised fund can be made at any time and are tax-deductible to the fullest extent of the law.

The Foundation can also accommodate the conversion of an existing private foundation to a permanent donor-advised fund.

The following table compares donor-advised funds with private foundations. For additional information, we invite you or your professional advisor to contact Guy McCrary at the Foundation, 432.617.3213.

## Comparison of Donor Advised Fund to a Private Foundation

	<i>Donor-Advised Fund</i>	<i>Private Foundation</i>
<b>CREATION</b>	Established by simple agreement with Permian Basin Area Foundation (PBAF).	Organized by incorporation or trust instrument.
<b>TAX-EXEMPTION</b>	Automatically exempt as a fund of PBAF, a public charity.	Must apply for private foundation tax-exempt status from the IRS.
<b>START-UP COST</b>	No cost to donor.	Similar to organizing a corporation requiring substantial fees for legal documents and filing with IRS for qualified tax-exempt status.
<b>RECOMMENDED INITIAL ASSETS</b>	\$100,000 or more	Substantial assets required to justify initial and ongoing overhead expenses.
<b>CHARITABLE DEDUCTIONS</b>	Current-year deduction up to 50% of adjusted gross income (AGI) for cash gifts. For gifts of appreciated property, fair-market value deduction for most assets up to 30% of AGI.	Current-year tax deduction limited to 30% of AGI for cash gifts. For gifts of appreciated property, fair-market value deduction only for gifts of publicly-traded securities up to 20% of AGI.
<b>DONOR CONTROL</b>	Donor may participate in PBAF's strategic grant-making and/or make advisory grant recommendations with final approval by PBAF.	Donor retains control over investments and grant making, subject to IRS requirements and prohibitions.

	<b><u>Donor-Advised Fund</u></b>	<b><u>Private Foundation</u></b>
<b>GRANT PAYOUT</b>	No minimum required.	Must pay out for charitable purposes at least 5% of investment assets value regardless of annual income.
<b>SELF-DEALING</b>	Donors and advisors are subject to conflict-of-interest policies and are prohibited from receiving benefits from grants made from their advised funds.	Strict regulations prohibit most transactions between a private foundation and its donors, including related persons or corporations.
<b>ADMINISTRATION</b> (e.g. accounting, auditing, legal administration, and grant management)	All administrative services provided by PBAF.	Must establish, obtain or hire these services including annual IRS filings.
<b>ANNUAL COSTS</b>	Minimal; PBAF fee is 1% of average fund balance annualized.	Administrative costs usually exceed 1% of fund value each year.
<b>INVESTMENTS</b>	Assets are professionally invested as part of PBAF services.	Must establish independent investments plan or hire management services.
<b>TAXES</b>	None	Annual excise tax of up to 2% of net investment income, including net capital gains. Other excise taxes may apply under certain circumstances.
<b>IRS REPORTS</b>	Included in PBAF's annual reporting; donors may remain anonymous if they choose.	Returns must be filed with required supporting schedules and are available to the public on the internet.

	<b><u>Donor-Advised Fund</u></b>	<b><u>Private Foundation</u></b>
<b>GOVERNANCE</b>	Board of Governors of PBAF fulfills fiduciary responsibilities.	Private foundation board has full fiduciary responsibility.
<b>LIABILITY INSURANCE</b>	Provided under PBAF's liability and office insurance policies	If desired, must be obtained through separate insurance carrier.
<b>TRANSITION</b>	Successive generations may participate in grant decisions.	Plans for succession must be described in organizing documents.