



**Community Foundation**

OF THE NORTH OKANAGAN

"enhancing the quality of life in our communities"

# **Handbook for Professional Advisors**



**Community Foundation**

OF THE NORTH OKANAGAN

***To the Professional Advisor:***

It is our pleasure to invite you and your clients to participate in the Community Foundation of the North Okanagan. Since its inception in 1975, the Foundation has been providing its donors with a flexible, low-cost, professionally managed vehicle to accomplish individual charitable goals.

As a professional advisor, you are in a unique position not only to support the charitable goals of your clients, but also significantly affect the quality of life in our communities. Funds established today in the Community Foundation of the North Okanagan will provide a critical stream of income in the decades ahead to meet the changing needs of our communities.

This handbook is designed to make it easier for you to serve your clients. Please call or write the Foundation office, or contact a member of the Board of Directors with any questions or comments you may have concerning the Foundation and its activities. In addition printed materials, including our Annual Report are available from our office.

We are grateful for the opportunity to work in partnership with you in serving your clients while assisting our community.

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**COMMUNITY FOUNDATION of the NORTH OKANAGAN**  
**PROFESSIONAL ADVISOR'S HANDBOOK**

**Index**

- A. INTRODUCTION**
- B. THE COMMUNITY FOUNDATION – WHAT IS IT?**
- C. USING A COMMUNITY FOUNDATION: SOME SPECIAL ADVANTAGES**
- D. TYPES OF ENDOWMENT FUNDS AND WHO DONATES TO THEM**
- E. GIFTS OF CASH, INCLUDING MEMORIAL FUNDS**
- F. GIFTS OF PROPERTY OTHER THAN CASH**
- G. GIFTS MADE THROUGH WILLS**
- H. GIFTS MADE THROUGH AN INTER VIVOS TRUST**
- I. GIFTS OF LIFE INSURANCE, ANNUITIES, RRSPs and RRIFs**
- J. CORPORATE GIVING**
- K. THE COMMUNITY FOUNDATION AS AN ALTERNATIVE TO A PRIVATE FOUNDATION**
- L. ENDOWMENT FUNDS HELD BY THE FOUNDATION**
- M. EXAMPLES OF SAMPLE CLAUSES**

***Our Sincere Thanks***

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The Calgary Foundation  
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## **A. INTRODUCTION**

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The information provided in this handbook is general and not intended to specifically answer questions which may be posed by any individual donor. Accordingly, prospective contributors should review their own situations with their own professional advisors.

Although we believe this publication provides accurate information based on the current (2003) applicable tax rules, users should understand that it is not intended to represent the rendering of legal, accounting, or other professional services. As for any major financial decision, prospective donors are strongly encouraged to consult with a competent professional advisor.

### **Handbook Design**

This handbook has been designed for those professionals who provide financial and/or estate planning advice to clients. This information can help maximize charitable gifts while minimizing taxes and, therefore, should be of interest to most clients.

The Foundation is pleased to work with potential donors through their financial advisors. We are also pleased to meet with your clients, where appropriate, to develop a charitable giving plan that meets their interests while conforming to your professional advice.

## ***B. THE COMMUNITY FOUNDATION – WHAT IS IT?***

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### **Community Foundation – A Community of Donors**

A community foundation is a collection of endowed funds established by individuals and corporations – a community of donors – to enhance the quality of life in a particular area. These funds are pooled and their investment is supervised by a board of directors made up of community leaders, with the income made available for distribution to support charitable activities in the community.

The first Canadian community foundation was created in 1921 in Winnipeg. By 2003 Canada had approximately 120 community foundations holding aggregated assets of \$1.8 billion. The grants from the investment income are affecting millions of Canadian lives. Community foundations are the fastest growing form of philanthropy in North America.

### **What is the Community Foundation of the North Okanagan?**

In 1975, members of the Vernon Rotary club saw a need for an organization which would allow individuals and organizations to work cooperatively to enhance the quality of life for the people of the North Okanagan Regional District.

Between 1975 and 1993, the funds held by the Foundation grew modestly from the initial donation of \$1,000 to \$529,000. In 1994 a single donation of \$503,000 by Robert D. McLean allowed the Foundation to quickly surpass the \$1 Million plateau. Since then growth has been steady and the Foundation finished 2002 at \$5.1 Million in capital.

As a result of the income from investments, the Foundation has provided over \$1.3 million in grants to charitable organizations in the community – in support of arts, culture, heritage, education, health, recreation, community celebrations, social services and sports. *It is important to note that the capital pool is never spent, only the income earned from investments.*

### **Vision**

Enhancing the quality of life in the communities of the North Okanagan

### **Our Mission:**

The Community Foundation of the North Okanagan is dedicated to improving the quality of life in the region by distributing the earnings from a permanent, ever-growing pool of funds.

### **The Foundation:**

- Exercises philanthropic leadership in identifying and addressing community needs and opportunities;
- Attracts and manages charitable gifts of cash, bonds, shares, pledges, bequests, memorials and life insurance in the form of permanent endowments;
- Invests these pooled funds prudently, and uses the earnings to make creative grants to deserving charitable organizations for the benefit of all types of activities: community services, arts and culture, education, health, and seniors and youth.

The Community Foundation is thus a catalyst and resource for philanthropy throughout the region. It is a vehicle for caring citizens who want to give something back to their community in perpetuity, both during and after their own lifetime

### **How Does the Community Foundation of the North Okanagan Work?**

The Foundation is governed by a volunteer Board of Directors. Directors serve a two year term.

The Board governs the Foundation within the regulations of the Society Act of British Columbia and those of the

Canada Customs and Revenue Agency (CCRA) relating to public foundations.

Investment management services are professionally provided by Phillips Hager & North 60%, Brandes Partners (32%) and Vertex Asset Management (8%), within the policy guidelines established by the Board. Performance is monitored quarterly by the Foundations Investment Committee.

The Foundation is administered by professional staff. Operating expenses are paid from administrative fees, and from gifts designated by donors to help reduce the impact on endowment income.

### **Existing Endowment Funds**

Donations are welcomed for the Community Endowment Fund, as well as for Designated, Field of Interest, Donor Advised and Scholarship Funds. Descriptions of these types of Foundation Funds are included in Section D and a listing of all the Funds (January 2003) is included in Section L.

### **How is a Fund Established and What Requirements Must Be Met?**

You or your client normally initiates the process by advising the Foundation of your wish to establish a fund. The information required includes the name of the proposed fund its purpose, and whether it is to be open to other donors, or closed.

We discuss the many options available and then assist with the preparation of a fund agreement form, tailored to your client's interest and needs, which requires signature and our Board approval.

Any desired restrictions must be placed on the fund at the time of its creation. The fund can be added to at any time, but the purpose or purposes must remain consistent with the stipulations in the original agreement.

Should the donor's interests change over time, one or more additional funds can be created to achieve alternative charitable purposes. A gift agreement form will be created for each fund.

Certain minimums apply due to the fact that an endowment fund is created as a permanent entity. The minimum can be achieved over an agreed-upon period of time. At present, our Board has established a minimum of \$5,000 for the following endowment funds:

- Scholarship Fund
- Field Of Interest Fund
- Designated Fund
- Donor Advised Fund.

Non-endowment funds (Flow Through Funds) are considered on a case by case basis, but are not a priority for our foundation.

Funds can be created in any of the following ways, including cash, securities, real estate or life insurance. Donation receipts will be issued for all gifts which may be used for income tax purposes.

### **What Fees are Charged?**

There is no charge to set up a fund in the Community Foundation of the North Okanagan.

Investment management and custodial fees are taken from the investment income. Foundation operating costs are funded by an annual charge of 1% of capital taken out of the income earned from investments.

### **What Information Can Donors Expect to Receive?**

Donors will receive our Annual Report which provides a review of the Foundation's activities over the last year. This report is published in the Morning Star Newspaper annually. Donors can also request a copy of our audited financial statements. The donor will also receive periodic reports on grants made from their fund.

The donor's name will be added to our mailing list to receive newsletters and other information about the Foundation that may be provided from time to time. They are also welcome to meet with members of our staff or Board to discuss any aspect of charitable giving.

(Some donors prefer to either remain anonymous. The Foundation respects their wishes at all times.)

### **C. USING A COMMUNITY FOUNDATION: SOME SPECIAL ADVANTAGES**

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◆ **Simplicity**

A gift to the Community Foundation of the North Okanagan simplifies charitable giving. Several charitable organizations or causes can be provided for with a single gift.

*For example, a life insurance policy could establish a permanent capital fund in the name of the donor(s) and the annual earnings divided in thirds between a school or college, The Boys & Girls Club, and disadvantaged children.*

◆ **Flexibility**

Almost any charitable intent can be realized, by choosing from among the endowment fund types offered by the Foundation. Furthermore, the range of charitable possibilities is very broad, encompassing: arts, culture, heritage, community festivals, social services, healthcare, education, nature, recreation and sports.

◆ **Permanence and Continuity**

The donor is assured that the fund will remain intact in perpetuity. The Foundation has a Preservation of Capital Policy which is followed to ensure that the original gift is protected. Only the annual earnings can be spent.

◆ **Recognition**

All donors receive recognition in our Annual Report and on our web site. In addition, all grants from a fund established by the donor are identified to the recipients by the name given to the fund. Of course, if a donor requests anonymity the Foundation will give assurance that such wishes are respected.

◆ **Investment Expertise**

The Foundation sets a conservative investment guideline and contracts with a professional investment management service, requiring an excellent return on investment at the lowest cost.

◆ **Tax Benefits**

The Foundation qualifies as a registered charity under the Income Tax Act. Thus, gifts made at any time will result in important income tax advantages.

◆ **Cost Effective**

With an overall administrative fee of only 1.00%, the Foundation provides an attractive alternative to those considering the establishment of a private foundation.

◆ **Community Effectiveness**

The Foundation, through its active role in the community, and through its rigorous grant process, has proven to make significant differences in the community with the grants it has made.

## ***D. TYPES OF ENDOWMENT FUNDS, AND WHO DONATES TO THEM***

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A donor to the Community Foundation of the North Okanagan can either make a gift to the Foundation into an existing open endowment Fund, or establish a new Fund. The threshold requirement for the establishment of a Fund is generally \$5,000. The Foundation will work with a donor to establish a mutually agreeable time period for the threshold to be in place.

Funds can be earmarked in a number of ways:

- ◆ **Community Fund** This is an unrestricted fund which permits the Foundation to decide where the income can be used most effectively each year to meet community needs as they change from generation to generation.
- ◆ **Field of Interest Funds** are those where the donor can direct the earnings from a Fund to a particular area of interest such as mental health, performing arts, children-at-risk, etc.
- ◆ **Designated Funds** are Funds under which the donor has specified one or more charitable organizations to be the perpetual beneficiaries of the annual income from the Fund.
- ◆ **Donor Advised Funds** are those where the donor retains the right to advise the Foundation each year which charitable organizations are to benefit from the fund's earnings. Revenue Canada policy requires that the final decision rest with the Foundation, however, the Foundation will honour the donor's wishes as long as the organization is recognized as a Qualified Donee by Revenue Canada.
- ◆ **Scholarship Funds** are Funds established to provide an annual scholarship(s) to students. The donor will provide the selection criteria and the Foundation/School will select the recipient(s). The Foundation will manage all aspects of the funding, including the mailing of the cheque to the educational institution.
- ◆ **Flow Through Funds** are non-permanent funds, established when a donor wishes to keep their gifting simple but wanting some, or in rare cases, all of their gift to go directly to a designated charitable organization(s). This option is not part of our Foundation's normal policy, however may be considered on a case by case basis.

It is not only individuals who can take advantage of the resources of the Community Foundation of the North Okanagan. For example:

- ◆ **A charity that wishes to establish its own endowment fund** but does not have the resources to fully administer and invest it, may wish to establish an Agency Endowment Fund with the Foundation. Agency Endowment Funds are those where a charitable organization may set up within the Foundation to which anyone may contribute as a long-term plan to ensure financial stability. The aggregation of funds within the Foundation increases the prospect of an enhanced investment return and contributes to reducing the investment management fee rate.
- ◆ **A corporation that wishes to rationalize its giving program**, or reduce the administrative cost of dealing directly with request for funding, may wish to set up a Donor Advised Fund and use the resources of the Foundation to evaluate requests.
- ◆ **A family that is considering setting up a Family Foundation** may find it quicker, cheaper and less troublesome on an ongoing basis to set up a Named Fund with the Foundation, without sacrificing any of the real benefits of having a Family Foundation. (See Section J: *The Community Foundation As An Alternative To A Private Foundation*)

## ***E. GIFTS OF CASH, INCLUDING MEMORIAL FUNDS***

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The cash gift is the traditional and familiar form of charitable giving. The Community Foundation of the North Okanagan will issue an income tax receipt promptly after the gift is received. Donors may then, to a limit of 75% of income within certain limits, obtain a tax credit.

### ◆ **Lump Sum Gifts**

Donations that exceed the 75% threshold can be used over the next five years – for a total of six years. Donation receipts can also be saved for up to five years and then used all at once. However, the latter option should only be chosen if the donor is sure that the entire amount can be used. If the donation receipts are not used within the time limit, they will be lost as a tax savings.

### ◆ **Annual Gifts**

An annual cash gift program can be a tax savings option for an elderly person who has plans to make a large charitable donation upon his or her death. If the gift is saved until the donor dies, the charitable credit cannot be applied backwards the same way it can be applied forwards (see Section E: *Gifts Made Through Wills*). All cash gifts are added to the capital base (or endowment) of the Foundation.

In either of the above situations, a donor making a cash gift to the Community Foundation of the North Okanagan may direct it:

1. To the Foundation generally;
2. To a particular charitable purpose;
3. To an existing fund within the Foundation;
4. To establish his or her own fund - either immediately, or with a series of payments. In order to keep administrative costs down, an aggregate contribution threshold of \$5,000 is required in order to establish a separate fund. Once a fund is established, it receives permanent recognition in the Foundation's *Annual Report*.

A **Memorial or Named Fund** within the Community Foundation of the North Okanagan is a particularly effective way to marshal cash gifts. After a relative's death, instead of directing friends to make a small donation to the charity of your choice, the family can direct donations to the Named Fund within the Community Foundation of the North Okanagan. If it is to become a new named fund, a pledge to top up the contributions to the \$5,000 minimum is required. The deceased receives permanent recognition (the capital is maintained in perpetuity in a fund named for him or her). The family has the option to specify how the earnings of the fund are to be spent, and continue to be involved in the annual allocation of the earnings.

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### Technical Reference

IT-110R2      Deductible gifts and official donation receipts

## **F. GIFTS OF PROPERTY OTHER THAN CASH**

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Subject to reasonable limits, donors may give property to the Community Foundation of the North Okanagan in a form other than cash.\* This can offer a real tax advantage for a donor who wishes to avoid capital gains exposure.

Recent changes to the treatment of capital gains associated with gifts of appreciated property have made this option even more attractive to prospective donors. The changes introduced in the Federal Budget of 1996 effectively provided a 100% limit on the portion of a donation of appreciated property that must be included in a donor's taxable income. The changes introduced by the Federal Government in October, 2000 allow individuals and corporations who donate shares and other securities listed on prescribed stock exchanges to include only 25% of the capital gain (instead of 50%) arising on the disposition of the shares or securities.□ This latter change is intended to provide a significant incentive for donors contemplating gifts of marketable securities to a charity.

Alternatively a provision of the Income Tax Act still permits a donor to elect the tax value at which the property is transferred to the Foundation. For example, a donor holding a stock portfolio can transfer the portfolio to the Foundation at its adjusted cost base, and, therefore avoid triggering any capital gain at all. He or she will also receive a tax receipt of the amount of the adjusted cost base of the portfolio. The Foundation may well decide to liquidate the portfolio the next day, but the Foundation does not pay tax.

Changes introduced in the Federal Budget effectively also eliminate the recapture of capital cost allowance (CCA). A donor of depreciable property will now have sufficient tax credits or deductions to offset the tax arising from the recapture of CCA by further increasing the new net income limit of 75% by an additional 25% of any CCA recapture arising from such a donation. The donor will receive a tax receipt for the donation of appreciable property that will shelter 100% of the recapture of CCA.

In an appropriate case, The Community Foundation of the North Okanagan can arrange for the donor to retain the use of the donated asset for his or her lifetime. This will have some effect on the value of the receipt.

The reduced capital gains tax rate has been extended to donations of shares acquired through employee stock options.

Again, the tax payable on any capital gain that is triggered by such donations is half the standard rate. To be eligible, the shares must be donated to a charity within 30 days of the option being exercised. The rules governing donations of publicly-traded shares will apply. This new measure also applies to donations of units in mutual trust funds that have been acquired under an employee option plan.

### Technical Reference

IT-110R2      Deductible gifts and official donation receipts  
IT-288R2      Gifts of capital property to a charity and others  
IT-297R2      Gifts in kind to charity and others  
Canadian Centre for Philanthropy, March 1, 2000

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\* For example, we would be unlikely to accept a gift of an operating business.

□A donor receives a tax receipt for the market value of the securities donated yet only brings into taxable income 25% of the capital gain.

## G. GIFTS MADE THROUGH WILLS

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Wills are a popular vehicle for donors to make gifts to charities. The key to a successful gift in a Will is to be aware of the different ways the gift can be structured.

Some of the possibilities are:

1. **Give a fixed sum to the Community Foundation of the North Okanagan in any and all events.** The advantage of this technique is that it gives the Foundation no standing to oversee the executor's conduct of the estate administration, and is simple to administer.
2. **Give a proportionate share to the Foundation in any and all events.** This allows the value of the donation to stay in proportion to the size of the estate.
3. **Give a contingent gift.** For example, the donor may designate that the Foundation receive the gift if a primary beneficiary predeceased the donor and the donor is less anxious to benefit secondary beneficiaries.
4. **Make a gift of a particular asset,** such as the proceeds of insurance payable on death or the rights to oil well royalties. (See Section I: *Gifts of Life Insurance and Annuities*).
5. **Think of the estate as a series of layers of value.** Give the first layer to the immediate family to ensure they are well provided for. But then, if there is some left over, give a layer to the Community Foundation to address community needs.
6. **Create a Testamentary Trust in the Will.** This is a type of charitable remainder trust. Instead of making an outright gift to a person who primarily requires income, a Trust is created to provide income to that person, with the capital to be distributed to The Foundation when he or she dies. The benefit to the donor is that the charitable purpose is pre-established, and a charitable receipt is applied to the year of the donor's death, thus benefiting the estate. From a tax planning standpoint, care must be taken in drafting such a provision as the tax receipt will be for the value of the capital adjusted for the life expectancy of the beneficiary.
7. **Identify the Community Foundation of the North Okanagan as a beneficiary of last resort,** if all those whom the donor primarily wanted to benefit, die.

**(Sample clauses for inclusion in Wills are attached in Section L of this Handbook)**

To its credit the Will is marvelously flexible. It can be changed at any time up until death, provided the donor has testamentary capacity, and the donor feels no pain while alive. However, it is worth remembering the obvious fact that the Will, and the terms of the gift made by the Will to the Community Foundation of the North Okanagan, cannot be changed after the donor's death. If the donor plans a gift other than a general gift or a gift for generally defined objectives, he or she should discuss this with the Community Foundation. Further, the donor may want to enter into an agreement to create a fund at his or her death, which will ensure the gift can be practicably applied. In that manner, the Will can simply direct payment to the Community Foundation of the North Okanagan in accordance with the agreement.

A charitable donation made at death is now subject to a limit of 100% of income which can be carried back for only one year (subject to the same 100% of income limit in the taxation year prior to death) and cannot be carried forward at all. However, a substantial donation could still exceed 100% of income in both the year of death and the year preceding death which would result in any excess being wasted in a tax sense. (See Section E: *Gifts of Cash, Including Memorial Funds*; Section H: *Gifts Made Through Trusts*; and Section I: *Gifts of Life Insurance, Annuities, RRSPs and RRIFs*.)

## **H. GIFTS MADE THROUGH AN INTER VIVOS TRUST**

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A Trust can be a great vehicle by which to make a large gift. This is because a tax receipt can be obtained right at the time the Trust is created, and applied against other income for up to six years. The assets are actually transferred to the Foundation at the time the Trust is created, however the donor (or a beneficiary designated by the donor) remains the recipient of all income during his/her lifetime.

The technique requires that the donor set aside a certain fund of money. The Trust Agreement sets out that the donor (or a nominee) will control the management of the fund as trustee and that the donor (or a nominee) will receive the income from the fund while he or she is alive. Upon his or her death, the fund will be payable to the Community Foundation of the North Okanagan. The donor, in essence, forgoes the right to use the capital, or to change his or her mind as to where the capital goes on his or her death.

Once the Trust is funded, the Foundation will issue a tax receipt in the year the Trust is created, but not for the full amount paid to the Trust. The amount is, instead, discounted by the remaining life expectancy of the donor. The capital must be left intact for the charity, or only eaten into at a fixed rate. If the trustee has the discretion to eat into the capital for the benefit of the donor without limitation, the tax receipt will be valueless.

This sort of arrangement is referred to as a **charitable remainder trust**. The Trust is established by and for the immediate benefit of a living individual (**inter vivos trust**). The inter vivos trust, when established properly, will have the added benefit of avoiding probate fees that would be charged on the assets if they were dealt with by the donor's Will.

The transfer of non-cash property to the Trust will normally generate a deemed disposition of that property at fair market value, and therefore produce taxable income. However, the donor can select the tax value at which property is transferred, and therefore, if desired, avoid exposure to any capital gain, or trigger enough income to off-set losses incurred elsewhere. The changes made in the Federal Budget of 1997 gives a donor other options for minimizing any increase to his or her taxable income as a result of capital gains realized on the donation. (See Section C: *Gifts of Property Other Than Cash*)

Where real estate is involved, the Community Foundation of the North Okanagan prefers that the property be sold and the cash proceeds become the gift to the Foundation.

The charitable remainder trust might work well in the following case: an elderly couple with no children, or with well-to-do children, plan to leave some of their combined estate to the Community Foundation of the North Okanagan after they both die. They are confident that they can commit a portion of their capital to the Foundation now, and receive only the income it produces. They like the idea that control of the capital remains in their hands. They understand the ground rules: they cannot touch the capital, and they cannot change the ultimate beneficiary. They also realize that the value of the assets placed in such a Trust will not form part of their estate for probate fee calculation.

### Technical Reference

IT-226R      Gift to a charity of a residual interest in real property or an equitable interest in a trust.

## ***I. GIFTS OF LIFE INSURANCE, ANNUITIES, RRSPs and RRIFs***

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### **LIFE INSURANCE**

Life insurance offers a host of possibilities for making a gift with significant value. Its appeal lies in its affordability for those with little cash savings to make large cash gifts-but it can also be attractive for the elderly donor who is prepared to forego a lump sum to see it returned as a death benefit. There are several options.

- ◆ Life insurance is **owned** by the Community Foundation of the North Okanagan. A donor purchases a policy and then immediately donates it to the Foundation, which designates itself as beneficiary. The donor will receive acknowledgment from the Foundation as soon as the policy is purchased and assigned. The donor continues to pay the premiums and receives a charitable receipt for each premium payment.
- ◆ A donor can give an **existing policy** to the Community Foundation of the North Okanagan, in which case he or she received a tax receipt for the cash surrender value of the policy.
- ◆ **Paid up insurance policies** may also be given to the Community Foundation of the North Okanagan during the lifetime of the donor, but care must be taken, in the case of an absolute assignment, to check whether this might trigger personal tax problems.
- ◆ Life insurance can also be **owned by the donor**. In this case, the donor does not receive a tax credit for the premiums; instead, he or she received a credit for the death benefit left to the charity in his or her Will. The charitable donation (to a limit of 100% of income in the year of death and the year preceding death - see Section E: *Gifts Made Through Wills*) - will reduce taxes otherwise payable at death, such as capital gains arising from deemed disposition. It is doubtful whether the designation of the Community Foundation of the North Okanagan as beneficiary of the policy (as opposed to designating the estate as beneficiary and then giving the proceeds to the Foundation) qualifies the gift for a tax credit.

### **ANNUITIES**

Note: At the time of this release, Revenue Canada does not permit charitable foundations to offer charitable annuities as foundations may not incur debt obligations, directly or indirectly. **The discussion in the first paragraph below is only included to give the reader an insight into this technique**

1. An annuity is a life insurance product. A **charitable annuity** is an annuity issued by the Foundation, and underwritten by a life insurer. The donor gives the Foundation a lump sum, and the Foundation in turn, through the insurer, promises to pay the donor an agreed upon series of payments for life. Revenue Canada publishes a life expectancy table that allows the Foundation to calculate, as a lump sum, the level at which this stream of payments represents only a return of the original capital to the donor. Anything less is an immediate charitable gift that generates a receipt, and all the payments made under the annuity are tax free.
2. Donors frequently combine a **non-charitable annuity with a life insurance purchase**. The annuity payments are, in part, used to fund a Community Foundation of the North Okanagan-owned life insurance policy, with the result that the charitable receipt for the annual premiums reduces the taxable component of the annuity. Those in the life insurance field maintain that the use of this technique produces a higher annual income for the donor than simply investing the capital in a term deposit, paying tax on the interest, and leaving the capital to charity by Will. A close comparison should be made with the charitable remainder trust (See Section F: *Gifts Made Through Trusts*).

### **RRSPs and RRIFs**

The charitable donations tax credit has been extended to include the proceeds from Life Insurance Policies, RRSPs and RRIFs where a charity is designated as the beneficiary, in the March, 2000 Federal Budget.

Previously, the tax credit was available only if the proceeds were left to the donor's estate, which would then make a cash bequest to the deceased donor's designated charity, pay income tax on the proceeds of a RRSP or RRIF (although not on the proceeds of life insurance policies), and claim the charitable tax credit for the cash bequest. This option continues, but under the new rules, donors have another alternative:

- To designate that the proceeds of his/her RRSP, RRIF or life insurance policy be paid directly to a charity (or charities) upon death, and

- The estate pay income tax on RRSP and RRIF proceeds, but
- The tax payable is offset by the amount of the charitable donation tax credit.

Technical Reference

IT-244R3      Gifts by individuals of life insurance policies as charitable donations  
IT-111R      Annuities purchased from charitable organizations  
Canadian Centre for Philanthropy, March 1, 2000

## **J. CORPORATE GIVING**

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A Community Foundation can offer a corporation or an active shareholder a cost-effective opportunity to give back to the community.

In general, the Community Foundation is an attractive alternative to the private foundation for corporations and shareholders. (See Section J: *The Community Foundation As An Alternative to a Private Foundation*)

### **THE OWNER MANAGED CORPORATION**

An entrepreneur who owns a corporation has an opportunity to give more on a tax effective basis than the average taxpayer. This is simply because the corporation can give up to 75% of its income to charity and deduct the gift from income, without affecting the owner's personal giving room.

Charitable giving can also help a donor out of a tax predicament. When an owner dies, his or her shares in the corporation are deemed to be disposed of for tax purposes at their fair market value. If, well in advance of an owner's death, the corporation both purchases insurance on the owner's life and makes a substantial donation to the Community Foundation, two things will happen. First the charitable donation will be deductible to the corporation. Second, proceeds of life insurance will be paid to the corporation after the owner's death and will replace the funds that went to the Community Foundation. Because the cost of the insurance and the charitable donation will deplete the assets of the corporation, the fair market value of the corporation's assets will be less at the owner's death than if no steps had been taken. And because the proceeds of insurance are received after the owner's death and are insurance by nature, they may be paid out tax free. The net result is far more cost effective than for the corporation simply to make a donation out of its cash assets after the owner's death.

### **THE LARGER CORPORATION**

A larger corporation can both rationalize and "insulate" its giving program by setting up a fund at the Community Foundation. Rationalization is achieved by giving the program a single focus, which can be developed with the assistance of the community Foundation and which will allow for the participation of management and employees to the extent desired. The corporation is also insulated from the day-to-day administration associated with vetting charitable requests since it can advise applicants that it does all its giving through the Community Foundation.

### **THE HIGH GROWTH POTENTIAL CORPORATION**

The corporation that needs all its working capital to grow can nevertheless make a difference. For a startup corporation that has little equity value, shares can be donated by the principals or issued by the corporation that will, if the company grows, represent a significant charitable gift once they are sold or redeemed. This would allow a corporation to potentially become a major community supporter at a relatively low cost.

For a corporation that has already built up value but has little surplus cash, options to acquire equity can be granted that represent a gift only of the future growth in the value of the shares. This may be of particular interest if a corporation is either considering, or has recently completed, an initial public offering. In addition, an individual shareholder can, where not prohibited by the corporate constitution, create options to purchase his or her own shares.

## ***K. THE COMMUNITY FOUNDATION AS AN ALTERNATIVE TO A PRIVATE FOUNDATION***

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Community foundations offer an attractive alternative to the expense and administrative burden of setting up and maintaining a private foundation.

Community foundations are registered as charities under the provisions of the Income Tax Act, and designated as public foundations.

A community foundation's mission is to enhance the quality of life in its geographic area. It does this by receiving donations and distributing the income earned to charitable organizations. It is a union of many gifts which come from individuals, families, businesses, charitable foundations and estates. From these gifts and bequests, community foundations build and maintain endowments, the earnings from which are used to solve problems and advance the interests of the community. All funds, whether large or small, receive the advantages of professional administration at a very low cost, and donors are usually provided with the maximum tax benefits allowed by law.

The first Canadian community foundation was established in Winnipeg in 1921. The Community Foundation of the North Okanagan was incorporated pursuant to the Society Act of British Columbia and became a federally registered charity in 1975. The Foundation has a governing body that is independent and broadly representative of the public. The Foundation's ultimate aim is to strengthen community. There is a network of more than 130 community foundations across Canada with over \$1.6 Billion in assets.

Community foundations share a common promise and premise that the intentions of the donors to the local community will forever be translated into meaningful charitable purposes.

Community foundations offer flexibility to the donor. At the time of creating a fund within the foundation, donors can name the fund, the purpose of the fund, and even the charity to be supported. The principal is held in perpetuity, and the earnings distributed to charitable organizations of choice.

A donor wishing to create a fund has simply to instruct the community foundation in writing of the name of the fund and what he or she wants done with the income from the fund. Subject to this being accepted by the Board of Directors of the foundation, and on receipt of the gift, these wishes will be carried out.

Since a community foundation is a public foundation, the income tax rules which affect it are significantly less onerous than those affecting a private foundation. For example, if a private foundation holds shares of any corporation with which it does not deal at arm's length (referred to as a non-qualified investment) and if, in any year, it does not receive at least a prescribed minimum return on that investment, a penalty tax is levied on the corporation equal to the amount of the deficiency. However, since this penalty tax does not apply to public foundations, it may be preferable to give such a security to a public foundation.

There are no legal fees attached to setting up a fund in a community foundation, and the community foundation assumes the tax and the reporting responsibilities for the fund. The community foundation handles grant applications, disbursements, and receipts; in fact, all the administrative and financial details of the fund. The donor's fund is named in annual reports and other publications of the community foundation and thus receives recognition in perpetuity.

(Excerpt from Establishing a Private Foundation, Canadian Centre for Philanthropy, 1987)

## **L. ENDOWMENT FUNDS HELD BY THE FOUNDATION**

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The following endowment funds are held by the Community Foundation of the North Okanagan (January 2003) and are available for further contributions:

<b>Fund Name</b>	<b>Fund Purpose</b>
<u>Agency Funds</u>	
<i>Armstrong Spallumcheen Museum &amp; Arts</i>	<i>To support the on-going activities of the agency</i>
<i>Boys and Girls Club of Vernon</i>	<i>To support the on-going activities of the agency</i>
<i>Festival of the Arts Fund</i>	<i>To support the on-going activities of the agency</i>
<i>John Howard Society</i>	<i>To support the on-going activities of the agency</i>
<i>Lumby Women's Institute</i>	<i>To support the on-going activities of the agency</i>
<i>North Okanagan Cancer Prevention Fund</i>	<i>To support the on-going activities of the agency</i>
<i>Okanagan College Endowment Fund</i>	<i>To support the on-going activities of the agency</i>
<i>School District #22 (Vernon) Scholarship Trust</i>	<i>To support the on-going activities of the agency</i>
<i>SPCA</i>	<i>To support the on-going activities of the agency</i>
<i>Special Gifts Committee - Trinity United Church</i>	<i>To support the on-going activities of the agency</i>
<i>St. John Ambulance Fund</i>	<i>To support the on-going activities of the agency</i>
<i>St. Vincent Home Endowment Fund</i>	<i>To support the on-going activities of the agency</i>
<i>Sustainable Environment Network</i>	<i>To support the on-going activities of the agency</i>
<i>United Way of N.O. Columbia Shuswap</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon &amp; District Museum Fund</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon And District Hospice Society</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Community Music School</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Jubilee Hospital Foundation Endowment</i>	<i>To support the on-going activities of the agency</i>
<i>VJH Foundation Vision Fund</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Motor Dealer's Assoc Fund</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Performing Arts Centre Endowment</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Public Art Gallery</i>	<i>To support the on-going activities of the agency</i>
<i>Vernon Restholm Endowment Fund</i>	<i>To support the on-going activities of the agency</i>
<u>Discretionary (Unrestricted) Funds</u>	
<i>Community Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Beatrice Perry Memorial Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Dorothy May Myatt Endowment Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Emma &amp; Archibald Gregory Family</i>	<i>To address the ever changing needs of the community</i>
<i>G.V. Rogers Memorial Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Mary Warder Merryfield Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Millicent M. Foster Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Murray &amp; Elva Gee Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Norman Gillis Endowment Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Norman Simon Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Patrick F. Mackie Endowment Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Peter George Legg Endowment</i>	<i>To address the ever changing needs of the community</i>
<i>Peter Leahy Memorial</i>	<i>To address the ever changing needs of the community</i>
<i>Richard J. Farmer Memorial Fund</i>	<i>To address the ever changing needs of the community</i>
<i>Stewart Fraser Endowment Fund</i>	<i>To address the ever changing needs of the community</i>

*Thomas Mellish fund*  
*Youth VIP Committee Fund*

*To address the ever changing needs of the community*  
*To address the needs of the community's Youth*

Designated Funds

*Administration Endowment Fund*

*Provides funds to cover the Foundation's*

*Admin costs*

*Agnes Sovereign Memorial Fund*

*TBD*

*Armanious Family Endowment*

*Funding for VJH programs*

*Art Sovereign Pediatric Unit Fund*

*Funding for Pediatric Unit programs at VJH*

*Aubrey Creed St. John Fund*

*St. Johns Ambulance*

*Beatrice I. Perry Endowment*

*Funding for VJH programs*

*Blankley Family Memorial Fund*

*TBD*

*Caroline Galbraith Cancer Fund*

*Funding for Cancer Clinic Programs at VJH*

*Caroline Galbraith Endowment Fund*

*Vernon Community Music School*

*Dorothy Myatt Endowment for Healthcare*

*Funding for VJH Programs*

*Dr. Arthur Sovereign Memorial Fund*

*TBD*

*Elizabeth Dubray Memorial Fund – Healthcare*

*Funding for VJH Programs*

*Hamilton Family Fund*

*TBD*

*Herbert & Frieda Drauzburg Endowment*

*Funding for VJH Programs*

*Joan James Memorial Fund for Cancer Care*

*Funding for Cancer Clinic Programs at VJH*

*Lyle/Darlene Lewis/Cancer Clinic Endowment*

*Funding for Cancer Clinic Programs at VJH*

*Lyle/Darlene Lewis/Cardiac Care Endowment*

*Funding for Cardiac Care Programs at VJH*

*Lyle/Darlene Lewis/VJH/Ultrasound Endowment*

*Funding for Ultrasound Dept Programs at VJH*

*Martin Goble Memorial Fund – Healthcare*

*Funding for VJH Programs*

*Peter George Legg Endowment*

*Boys and Girls Club, Cancer Society*

*Peter Leahy Memorial Fund*

*United Way, Vernon Theatrical Arts Society*

*Petra Emmi Heaton Memorial*

*Salvation Army, SPCA*

*R.D. McLean Diabetic Daycare Fund*

*Funding for Diabetic Programs at VJH*

*Robert D. McLean Fund*

*Baptist Missionary Society, Diabetic Clinic at VJH,*

*Boys and Girls Club, War Amps of Canada*

*Vernon Pensioners Accommodation Society*

*UBC Library, Vernon Public Art Gallery, Caetani Grave*

*Maintenance*

*Sharon Billie Memorial Fund*

*Salvation Army*

*Sveva Caetani Memorial*

*Funding for VJH Programs*

*William A. Irwin Fund*

*Funding for VJH Programs*

*William Seibt Fund for Healthcare*

*Xel & Cora Monsees Endowment*

Donor Advised Funds

*Anonymous Fund "A"*

*Recipients selected by donor*

*SSS Sestrap Endowment Fund*

*Recipients selected by Donor*

Field of Interest Funds

*Bryson McKay & Maude Beatrice Whyte Memorial*

*Mentally Handicapped Programs*

*Bryson McKay & Maude Beatrice Whyte Memorial*

*Senior Citizen Programs*

*Community Health Endowment Fund*

*Community Health Projects/Programs*

*Petra Emmi Heaton Memorial*

*Special Needs Children*

Scholarship Funds

*A.A. and I. Gray Scholarship Fund*

*Scholarship – OUC Kal Campus*

*Archibald McKellar MacMechan Fund*

*Language Proficiency Prize – S.D. #22*

<i>Cherryville Community Club Bursary</i>	<i>Scholarship – S.D. #22</i>
<i>Class of '69 Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>D.S. MacKay Scholarship Fund</i>	<i>Engineering Scholarship – S.S. #22</i>
<i>Dr. Vic Demetrick Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>HI Masters Bursary</i>	<i>Scholarship – S.D. #22</i>
<i>Jeff Thorlakson Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Jim &amp; Elizabeth Kidston Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Jo Ellen Foster Memorial Fund</i>	<i>Music Scholarship – S.D. #22</i>
<i>Justice Peter D. Seaton Memorial Fund</i>	<i>Law Student Scholarship – Univ of Victoria</i>
<i>Kalamalka Award Program Endowment Fund</i>	<i>Scholarship – 2<sup>nd</sup> year student at Kal Campus of OUC</i>
<i>Kara Hintz Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Karen Bedard Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Kerry Palmer Memorial Bursary</i>	<i>Scholarship – S.D. #22</i>
<i>Leah Dayboll Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Lumby Minor Hockey Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Marika Kirchpfennig Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Michael Ludwig Memorial Fund</i>	<i>Scholarships – PVSS and A.L. Fortune Sec. Schools</i>
<i>Pat Duke Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Pauline Legg Endowment Fund</i>	<i>Scholarships – W.L. Seaton and Kal Campus of OUC</i>
<i>Peter George Legg Endowment</i>	<i>Scholarship – Kal Campus of OUC</i>
<i>Reay O'Rourke Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Ron Hlady Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>SFU - Science Scholarship Fund</i>	<i>Scholarship – 1<sup>st</sup> year student in Science at SFU</i>
<i>Sid Dalzell Memorial Award Endowment Fund</i>	<i>Award – Graduates of Home Care and Nursing Programs</i>
<i>Silver Star Rotary Education Fund</i>	<i>Scholarships – 5 High Schools (Vernon/Lumby)</i>
<i>Smith Family Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Vernon Secondary Alumni Scholarship</i>	<i>Scholarship – S.D. #22</i>
<i>Wm Seaton/Kin Memorial Scholarship</i>	<i>Scholarship – S.D. #22</i>

## **M. EXAMPLES OF SAMPLE CLAUSES AND AGREEMENTS**

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### **SAMPLE CLAUSE FOR AN IMMEDIATE GIFT OF CASH OR PROPERTY TO AN EXISTING ENDOWMENT FUND** *(Immediate gifts of cash or property to establish new endowment funds require Agreements.)*

"I/We, \_\_\_\_\_ Name of Donor(s) \_\_\_\_\_, hereby give to the Community Foundation of the North Okanagan, the assets described below, to be held in the \_\_\_\_\_ Name of Existing Fund \_\_\_\_\_. The effective date of this gift shall be the date of receipt and acceptance by the Foundation.

### **SAMPLE CLAUSES FOR INCLUSION IN WILLS**

#### **A. To the Community Fund**

"I give, devise and bequeath:

(describe assets which are the subject of the bequest – for example, a stated sum or the residue of the estate or a percentage of the residue of the estate)

to the Community Foundation of the North Okanagan to be included as a part of the Community Fund with income to be used for general charitable purposes."

#### **B. To a Field of Interest or Designated Fund**

"I give, devise and bequeath:

(describe assets which are the subject of the bequest – for example, a stated sum or the residue of the estate or a percentage of the residue of the estate)

to the Community Foundation of the North Okanagan to be held as a permanent endowment fund named the \_\_\_\_\_ Fund, with income to be used to support (specify the field of interest or specific charitable organization)."

#### **C. A Contingent Bequest**

"In case any bequest made by this will shall by reason of the death of the beneficiary in my lifetime, or for any other reason fail to take effect, the property so bequeathed is to go to the Community Foundation of the North Okanagan, to be held as a permanent endowment fund, named the \_\_\_\_\_ Fund, with income to support (general charitable purposes, field of interest or specific charitable organization)."

*In all of the above situations, the Foundation is always appreciative of knowing when a donor intends to leave a bequest from an estate, however, it is not necessary to do so.*

## FORMS

The following pages are actual examples of the Agreement Forms used by the Community Foundation of the North Okanagan to establish new Funds (as of January, 2003). In each case, the Agreement Form requires an Attachment A and this is included as the last page of the forms.

1. Community Fund Agreement
2. Field of Interest Fund Agreement
3. Designated Fund Agreement
4. Scholarship Fund Agreement
5. Donor Advised Fund Agreement

*These agreements are available on our website [www.cfno.org](http://www.cfno.org) "How To Give" or by calling (250)542-8677*