

## Priming a Private Family Foundation for Long-Term, Multi-Generational Success

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A PRIVATE FAMILY FOUNDATION CAN FULFILL A SPECIAL PURPOSE FOR AN ENTREPRENEUR AFTER A SUCCESSFUL BUSINESS EXIT. Through it, wealth creators often aspire to give back some of what they have been fortunate to earn and receive. By involving their spouses and children, maybe even grandchildren, entrepreneurs endeavor to keep their families committed to something greater than themselves in the face of great, often distracting, material wealth. They also hope to keep the members committed to each other through the experience of working together on the foundation. The foundation might also appear to be the perfect avenue for necessary wealth education for an otherwise disinterested spouse and next generation. Great expectations, to be sure. But are they achievable? And if so, how can families best prepare to build successful, intergenerational private family foundations?

First, you must understand, acknowledge and enunciate your dreams. In order to effectively accomplish (or decide against accomplishing) any given set of expectations, it is imperative that they are well understood. Accordingly, articulating all

Story continued inside ...

# So You've Been Asked To Serve on a Charity Board

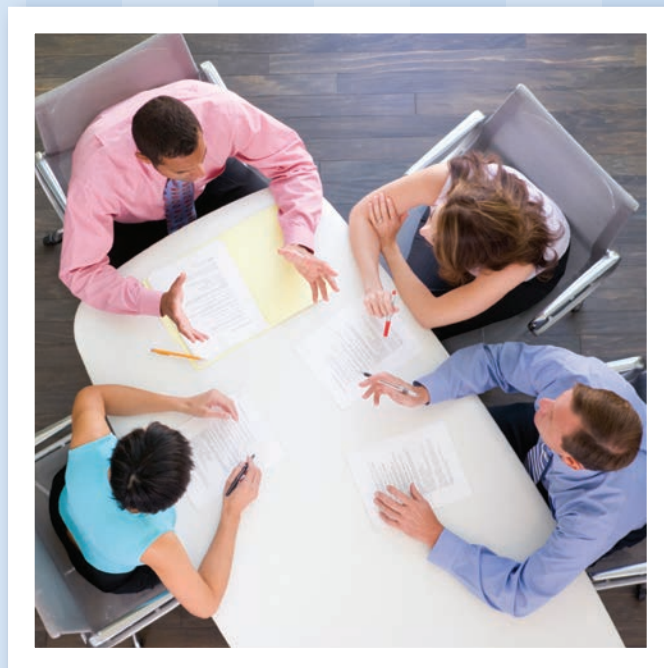
**D. FORT FLOWERS, JR., CFA**  
*President and CEO*

**I**t is a great honor to be asked to serve on the board of a non-profit organization. Before agreeing, you should carefully consider the implications of your prospective service so you can make an informed decision. It is important to have discussions with both the senior executive and the board chair in order to gain an in-depth understanding of their views of the board's and your roles.

The first thing to consider is your passion for the organization's mission. Board members are expected to attend meetings and other events; make significant financial donations to support operations, capital needs and other fundraising activities; and help solicit their friends and business contacts to provide support. Before saying yes, you should clearly understand the organization's expectations of board members as well as your own comfort with meeting those expectations. Is your passion for the mission sufficiently strong for you to be willing to commit your time, money and network?

## **Observe How Board Operates**

Through conversations with board members and possibly as a guest attendee at a board meeting, you should observe how the board operates. Does the board act as a rubber stamp for the senior executive, or does the board determine the strategic direction and then empower management to execute? Is there complete transparency at the board level or are there critical "secrets" (e.g., executive compensation and perks) that are known only to a few board members? Are some board members' terms essentially perpetual or are there enforced term limits? Do appropriate board committees focus on nominations and governance or are those tasks handled solely by the senior executive and/or the board chair? Does the board appear to micro-manage the organization or is there a healthy boundary between the board and management?



You also should try to determine the organization's health. Chronic operating deficits are a cause for significant concern; likewise, excessive personnel turnover, especially at senior levels, should give you pause. You should review audited financials for several years and ask to see the auditor's most recent management letter that gives recommendations for improvements in processes and controls. Be wary if there is no management letter, as very few non-profits have their house completely in order. The lack of a management letter may be an indication of an audit that is proforma only.

## **Liability Exposure**

Examine your potential liability exposure by consulting with personal counsel, your insurance provider and other advisors. Some questions to ask: Does the organization indemnify its board members and are there sufficient assets to make that indemnity meaningful? Does it maintain directors and officers liability insurance? What protections do non-profit directors have under state law? Does your personal liability policy offer any protection for non-profit service?

Service on the board of an organization that is doing good work in an area of your passion can be extremely fulfilling. These suggestions are not intended to be a litmus test; rather, they are intended to help you understand the situation and expectations before you decide whether to accept.

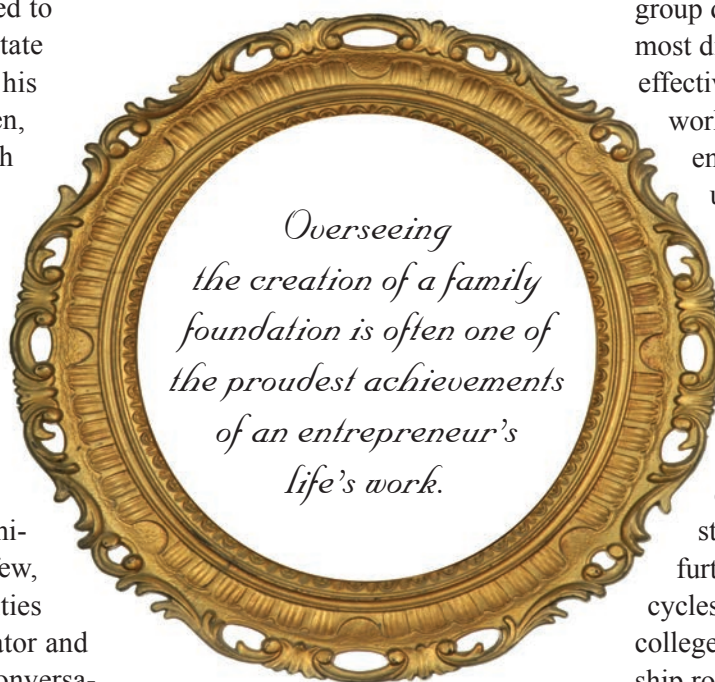
that you desire to achieve through the creation of a private foundation – execution of a personal philanthropic mission, conflict resolution, long-term family unity, wealth education – is key. This may be a good opportunity to solicit input from trusted advisors as to whether the goals underlying establishment of the foundation conflict with other objectives.

### Children's Relationships

For example, I worked with a wealth creator who wanted to use the majority of his estate to fund a family foundation for his children to manage. The children, however, had not spoken to each other in years. Clearly, at least one unspoken objective was to re-establish family unity, an aim probably too lofty for any family foundation. This certainly was not the first wealth creator to hold out a similar hope. In this case, the best counsel likely was to avoid a foundation as an avenue for family reconciliation and toward a few, large testamentary gifts to charities beloved by both the wealth creator and his wife. These were difficult conversations, but without them this family – certainly the wife and children – would have had an even tougher road ahead.

If a goal of the foundation is on-going, multi-generational participation, it is often useful – if not imperative – to solicit adult children's input as early as possible in the planning process. Ask what the family members want to achieve. How will they get there? How much time can they commit? Encourage lively discourse. Build consensus by making decisions, not necessarily by majority rule, but by the assent of all parties involved. Focus on

shared rather than individual goals. Neutral third parties (mediators, facilitators, arbitrators) can help participants improve communication and find common ground. If the foundation is to prosper, the vision should be shared by as many family members as possible so that they will make a genuine investment of their time and talent. A forced march is rarely successful – even if the leader of the march is really excited about it. If the enthusiasm for maintaining the foundation is not shared by



future generations, it might make more sense to steer clear of using a foundation in a likely-to-fail attempt to force involvement and unity.

Similarly, where the senior generation seeks to use the foundation as a platform for next generation wealth education – providing a laboratory in which to study the basics of economics, budgeting, taxes, inflation, asset allocation and investment performance – children of all ages must be appropriately interested and invested. Accordingly,

provide the next generation with options or ask them what topics interest them and tailor a syllabus to those interests. Ensure that they build a strong rapport with relevant advisors. If possible, deliver components of wealth education by setting up one-on-one meetings with professionals.

A combination of personalities, skill sets and interests requires strong leadership in order to effectively execute any foundation's mission. The challenges of family relationships and managing group dynamics become some of the most difficult aspects of enabling an effective foundation. Create a framework for success at the outset by ensuring that all family members understand they are there to further the foundation and serve the public interest. Encourage members to take turns leading. Ensure that people are ready to take charge by offering board leadership or management training classes. Acknowledge different styles, interests and strengths and help develop them further. Make room for life and its cycles. Groom empty-nester and new college grads alike to step into leadership roles. Conversely, give young, busy parents a wide margin of error on attendance and participation requirements.

### Open Mind

Approach board discussions with an open mind; be thoughtful and intentional about board work; and focus on what is best for the foundation. If conflicts arise, speak privately with those involved, reminding them not to bring personal issues into the boardroom. In extreme cases, invite an outside facilitator to navigate particularly tricky situations or conflicts.

Be prepared to effectively address the balance of power relative to allocation of charitable dollars. How much of a vote does each person or household have and why? Sometimes the wealth creator will say she wants to transfer or share some or all grant-making authority but, in truth, is unable to let go. In this case, a Founder's Fund or discretionary amount over which the founder has full control may allow management of the remainder of the funds to actually vest in the hands of the family at-large.

### Conflict Among Branches

There may be conflict among different family branches over who should have a greater say in how the foundation's dollars are allocated. In this case, we have seen families allocate grant-making authority in accordance with each household's personal philanthropic giving. That is, when the entire family's personal philanthropic contributions are taken as a whole, each household has a say over their relative share of the foundation's grant-making dollars. Whether the amount distributed is large or small, who decides on how these monies are allocated is often a highly contested topic and should be addressed, and agreed upon, in advance.

Overseeing the creation of a family foundation is often one of the proudest achievements of an entrepreneur's life's work. Ensuring its viability for generations to come requires much of the same strategic thinking, foresight and appreciation for the power of human dynamics as did the founding and growth of the business that generated the original wealth. Though the goals may be lofty, genuine multi-generational participation in a larger philanthropic vision is possible if you engage other family members early in the process, ensure that everyone feels they are making a meaningful impact, stay flexible and make it fun.

# WHAT TO DO

## if You Are an Identity-Theft Victim

ANTHONY J. DETOTO  
*Senior Vice President*

With 7% of American households experiencing identity theft in 2010, it is increasingly likely that you will be a victim someday. Your odds go up with greater wealth and more financial accounts, and probably rise further if you have a personal staff (e.g., household employees, a pilot, bookkeepers, etc.) What do you do if your identity is compromised?

### YOUR CREDIT CARD

The most common type of identity theft is credit card fraud. Relative to other types, it's fairly harmless since your financial risk is usually limited to \$50 per card. If you suspect credit-related fraud, you should contact the credit card company. Close the account and request a new account with different passwords. Then, limit additional fraudulent acts by reporting the facts to the credit bureaus: Experian, Equifax and TransUnion. They will flag your file for 90 days, which requires creditors to call you before extending credit, thereby keeping the criminal from obtaining new cards in your name. You may freeze your

credit, effectively preventing credit issuers from accessing your credit file, but doing so likely will delay legitimate credit requests.

Next, obtain a free credit report ([www.annualcreditreport.com](http://www.annualcreditreport.com)) and review it in detail. You should report erroneous activity in writing to the credit bureau (which must block incorrect information from future reports) and the credit issuer. The Federal Trade Commission (FTC) provides sample letters at [www.ftc.gov](http://www.ftc.gov) (type “sample letters” in the search box). When you have resolved the fraudulent account or charges, ask for a letter stating that the company has closed the dispute and discharged the debt. Be sure to save all documentation. Over the next few months, check your credit bureau reports regularly to ensure there is no more fraudulent activity. You can report credit fraud to the FTC (**877-438-4338** or [www.ftccomplaintassistant.gov](http://www.ftccomplaintassistant.gov)) so that the information is available to nationwide investigators, your local police and the Postal Inspector (**800-275-8777** or <http://postalinspectors.uspis.gov>).

### YOUR DEBIT CARD

If your debit card has been stolen, call your bank immediately and follow up with a fraud affidavit (also available online through the FTC). Get a new debit card, account number and password. Closely monitor your account statements. Unlike a credit card, you may be liable for debit card fraud. Your debit card contract should outline any fraud protections available to you.

### YOUR BROKERAGE ACCOUNT

You also may not have loss limits in case of fraud against your brokerage accounts. Immediately report incidents

to the brokerage company. Change all passwords related to your accounts and, if necessary, change the account numbers themselves. Notify the Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)) and the Financial Industry Regulatory Association ([www.finra.org](http://www.finra.org)).

### YOUR SOCIAL SECURITY NUMBER

If you believe your social security number has been lost or stolen, contact the Social Security Administration (**800-269-0271** or <http://tinyurl.com/826vscl>). Request a new or replacement card if needed. Put an alert on your credit report and monitor it to ensure your social security number is not being used to secure credit. Since your social security number can be used fraudulently for tax purposes, report the fraud to the IRS (**800-908-4490** or [www.irs.gov](http://www.irs.gov)). Changing your social security number is not recommended except in extreme circumstances.

### YOUR PASSPORT

If you suspect your passport has been used or applied for fraudulently, alert the Department of State (**877-487-2778** or [http://travel.state.gov/passport/lost/lost\\_848.html](http://travel.state.gov/passport/lost/lost_848.html)). For fraud involving your drivers' license, you may need to change your license number. Your local Department of Public Safety can assist you and put a fraud alert on your DPS records.

### YOUR MEDICAL INSURANCE

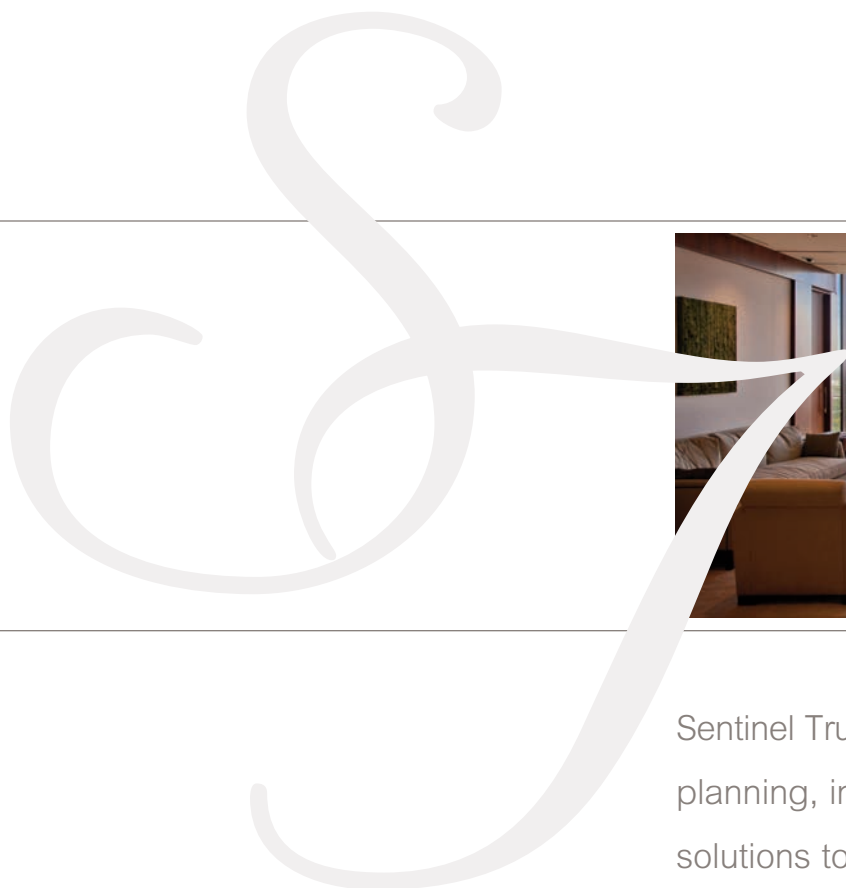
For suspected medical insurance fraud, notify your insurance company. Request a review of all the benefits that have been paid in your name to be sure they belong to you. If you find errors in your insurance or medical records, have them corrected immediately. Going forward,

monitor any explanation of benefits. If anything appears to be incorrect, contact the insurer or provider for a full explanation. If you get a statement for services you did not receive, don't ignore it.

Whether or not you have been a victim of identity theft, there are many things you can do to protect yourself, including checking your credit report once a year (it's free!); regularly reviewing your bills, statements and medical claims for transactions you don't recognize; shredding all documents that contain personal information; using strong (and different) passwords on every online financial account; not replying to emails or unsolicited phone calls requesting personal information or account numbers; and conducting thorough background checks on employees or others who have access to your personal data.

### DO YOU NEED IDENTITY THEFT PROTECTION?

Some companies purport to protect you from identity theft, promise to shoulder the administrative headache of cleaning up any mess, and/or insure you against financial loss. These may offer some peace of mind, but the bottom line is that you are probably in the best position to handle these issues because you know the intricacies of your personal transactions. In most cases you won't have much financial loss thanks to federal consumer-protection laws and your credit rating should not be permanently affected. You are the best person to protect yourself by following a few simple, self-protection habits. The good news is that, in this case, the cheapest solution is the most effective one!



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