

DOLLAR SENSE

BUILDING YOUR CHURCH'S FUTURE ONE BRICK AT A TIME!

Vol. I: Issue 2

A Service of the Desert Southwest United Methodist Foundation (DSUMF)

12/1/2003

**THANK
YOU!**

This Newsletter's purpose is to provide both the clergy and lay leaders of the Desert Southwest Annual Conference with reliable and consistent financial information that we believe you need to help secure your church's financial future.

In every issue of **DOLLAR SENSE**, information under the following headings is provided:

INVESTING

**ESTATE
PLANNING**

**CHARITABLE
GIVING**

**ENDOWMENT
FUNDING**



**Desert Southwest
United Methodist
FOUNDATION
DSUMF
602-266-6956**

Thank you for clicking on the link we sent you. Welcome to our second issue of **DOLLAR SENSE**, a monthly electronic newsletter produced by the DSUMF. We received many positive responses from people who reviewed our first issue last month. We thank you for those responses! With any type of estate planning or charitable giving question, please don't hesitate to contact us by phone or fax. Our e-mail address is dsumf@earthlink.net For more in-depth information about these subjects, go to our Web Site at www.desertsw.org/foundation.html.

**ENDOWMENT
FUNDING**

In last month's issue, we discussed why every church ought to have a Permanent Endowment Fund. It is not only possible, but it is absolutely necessary to design, implement and operate such a Fund. Such a plan is critical to the financial future of your Church.

When a church opens its doors to endowment

giving and funding and includes a corresponding educational program, at least five things happen:

1. The church *will receive* increased gifts to fund its various causes.

2. *Members* will examine their understanding of Christian Stewardship and *will make bequests* as well as current gifts as their charitable response.

3. *Members will learn* about the benefits of charitable giving, which will expand the opportunities for mission and ministry of your church.

4. Because there is an Endowment Fund, current contributions given in support of the ongoing *annual budget will be freed up* to strengthen and even expand existing programs.

5. The church and its various ministries *will begin to receive major planned gifts* that have previously been directed to other causes where endowments are already in place.

Will these things happen in a church that does not

have an intentional program of planned giving? The answer is NO! Will they happen in a church that does not have endowments as a part of its total stewardship program? Again, the answer is NO!

Will these things happen in a church that does have a program of planned giving and endowment funds? The answer is YES! They may happen sooner in some churches than in others, but they will happen!

**CHARITABLE
GIVING**

**Gifts of Stock:
Do's and Do Not's**

If you're thinking about donating appreciated stock to your church during this season of year-end giving, don't think about it! Just do it! However, you must be careful. It almost always makes SENSE to donate appreciated stock rather

CHARITABLE GIVING CONTINUED

than cash. This is because such gifting provides you with two advantages.

The first advantage to giving appreciated securities is that you avoid a capital gains tax. This tax was reduced from 20% to 15% for all capital gain property donated after May 5, 2003 when President Bush signed the new tax cut package into law.

Second, you'll qualify for an income tax deduction equal to the fair market value (FMV) of the stock on the date your church receives the gift.

EXAMPLE: Assume you purchased stock many years ago for \$1,000 and it is now worth \$10,000. You decide to sell the stock and give the proceeds to your church. If you do that, then there will be a capital gains tax

of 15% assessed on all the appreciation equaling \$1,350 ($\$9,000 \times 0.15$). You would report the gain and pay the tax when you filed your next tax return.

If you paid the taxes from the proceeds of the sale, then your church would receive \$8,650 ($\$10,000 - \$1,350$) and you would qualify for an income tax deduction of the same amount.

If you gave the stock to your church before selling it, then you would avoid capital gains taxes and qualify for an income tax deduction of \$10,000. The church would receive all the proceeds of the sale of the stock.

Now we come to a potential problem. Most churches don't have their own brokerage accounts. So you may wonder how the church is going to sell the stock in order to receive cash.

You shouldn't wonder too long about that. You see, the DSUMF does have a brokerage account. If your church has a deposit account with us, we'll even do the transactions free of charge! No commissions!

In addition to doing the transaction, we'll prepare a properly worded donation letter as required by the IRS. We'll also prepare two different IRS Forms that you'll need in

order to claim your deduction. As with all charitable gifts, there are donation ceilings established by the Internal Revenue Code. For more information about gifts of stock or any type of charitable giving, contact us at your convenience! We're always ready, willing and able to help!

For a **FREE, confidential, no-obligation, personalized illustration of how a Gift of Stock may work for you, please contact Dr. Rick Brown, at:**
www.dsumf@earthlink.net

ESTATE PLANNING

New AZ Uniform Trust Code Law Raises Questions For Both Creators And Beneficiaries Of Trusts

On May 19, 2003, Senate Bill 1351 was signed into law. This new law is the Arizona version of the Uniform Trust Code ("UTC"); it becomes effective January 1, 2004. With a few notable exceptions, the provisions of the new statute will apply to all trusts, including trusts created before the effective date.

Arizona's adoption of the Uniform Trust Code, has raised many questions for

anyone who already has created a trust, anyone who oversees a trust or who expects to receive assets or income from a trust.

Q: Which trusts are governed by the code?

A: All trusts to which Arizona law applies, as specified by the trust's wording.

The controversial new reporting rules pertain only to "irrevocable" trusts, which, under the old law have been difficult to change because the person who established the trust has either passed away or become incapacitated. Just when you think you're in the clear because you created a "revocable" trust, such as the Revocable Living Trust, think again!

Most revocable trusts eventually become irrevocable. In cases where a married couple establishes a revocable trust during their lifetimes, it becomes an irrevocable trust at the death of the first spouse. So these trusts fall under the conditions of the new law too!

Certain trusts, such as those funded by life

STOP!
Don't Sell That Stock!
Give It Away!

ESTATE PLANNING CONTINUED

insurance, are irrevocable from the start.

Q: Do the new rules retroactively apply to trusts drafted before Arizona adopted the code in May?

A: Yes!

Q: What are the requirements for reporting?

A: Even before the creator of the trust passes away, trustees must inform all “qualified” beneficiaries 1) that a trust exists, 2) that they have been selected as the trust’s trustee and identify themselves as such, and 3) provide a report to the beneficiaries.

The report, which is not an accounting per se, must 1) detail the trust’s distribution plans, 2) provide a list of assets and their values, and 3) provide information about all administrative activities and costs.

Do you think the preparation of such reports will speed up the distribution process and reduce the administrative costs of managing the trust? I don’t think so!

Q: In the new law, what is meant by the term “qualified beneficiary?”

A: The term refers to people, ages 21 and older, or charitable entities that receive trust income or would be entitled to assets if the trust terminated immediately.

Q: Could Arizonans rely on other estate-planning devices to avoid the disclosure rules?

A: Yes. For example, the provisions of a Last Will and Testament don’t need to be disclosed prior to the owner’s death. Similarly, a Beneficiary Deed can be used to transfer real estate with no notice requirement. Custodial arrangements like the Uniform Transfers to Minors Act accounts also work, but none of these is a perfect substitute for a trust.

Some practitioners of trust law believe the new AZ UTC is “Bad Law.” An Estate Planning attorney in the Scottsdale, AZ area has written . . .

“Our State legislature has

Some Lawyers are on record stating the new AZ Uniform Trust Code is “BAD LAW!”

now inadvisedly adopted the Uniform Trust Code.

With this act, they have repealed one of the best laws on the books. ARS §14-7201 is repealed as of **January 1, 2004**. This section held that ‘the administration of a trust shall proceed expeditiously consistent with the terms of the trust, free of judicial intervention . . .’ This law affirmed that what you described in your trust was the law.”

With the new law, however, it seems as if the trustee you selected to manage your trust after your death can change your wishes as long as the trustee can convince most of your beneficiaries to agree with the changes! The new law states that what you said in your trust is still followed. However, with the new law, your trust is now subject to certain exceptions and restrictions in the law.

You will be affected by these exceptions if: 1) you name a charitable organization as a beneficiary or 2) if your trust already is, or will become irrevocable.

That means if you have an irrevocable trust, or a revocable living trust with an A/B provision, a marital deduction, a credit-shelter trust, or a charitable remainder trust, your trust is affected. And this new law applies retroactively to all existing trusts!

There are Default Requirements as well as Mandatory Requirements in the new law. Unless your trust has specific language that prevents the application of the Default Requirements, these provisions under the new law will apply. Regardless of what you have written into your trust, the Mandatory Requirements will also apply.

Some of the Mandatory Requirements are down right scary! For example, it is now a mandatory provision in the new law that the court “may take action... as may be necessary in the interests of justice.” In other words, the court can essentially rewrite your trust if it deems your trust to be “unfair.” It may do so at its sole discretion!

You may protect yourself, your family, and your privacy by amending your trust prior to January 1, 2004!

Many lawyers are already “circling the wagons” and getting ready to launch an effort to repeal this new law. But what should you do in the meantime?

You should:

1. Review your trust to determine if there are any

other provisions you'd like changed while it is being repaired or restated to comply with the new law. Doing this now will save you time and money when you meet with your trust lawyer.

2. Prepare for some costs. Fixing your trust to protect yourself as much as possible from this legislation is going to require a lot of time, effort and skill. Unfortunately, many lawyers are not even aware the law has been changed or how these changes may affect you. At the very least and regardless of costs, I recommend that you at least contact your trust lawyer and have a discussion about this new law.

3. Call your Arizona state legislator and the Governor's Office. Tell them to repeal this new law because it is too invasive into your private matters. Tell them you would be happy to have the administration of your trust proceed under the conditions set forth in the old law as expeditiously and consistently with the terms you established in your trust without court intervention.

After all, isn't that one of the main reasons why you created a trust in the first place?

**DON'T PUT
ALL YOUR
EGGS IN
ONE BASKET!**

INVESTING

With commodities, mutual funds, stocks, bonds, "puts" and "calls," margins, managed futures, "spiders," and "diamonds," one can begin to wonder if they're managing a zoo or mining for gems when it comes to investing long-term church money. How is anyone supposed to know the right thing to do?

Just within the stocks category alone, there are U.S. and foreign stocks. There are small-cap, mid-cap and large-cap stocks in the "value", "growth" "core," and "sector rotating" styles. There are corporate bonds and government bonds with different maturity dates.

Investing long-term church money is an awesome responsibility; where does one begin? The best place to start is to ask about your church's "risk tolerance." How much risk is your church willing to take on the fact that it could lose much of

the value of its investment? Most churches do not want to assume very much risk at all and they shouldn't.

Keep in mind, however, that if there is to be any gain on investments, some risk must be taken. A church that takes no investment risk is like the third servant in Matthew 25:14-30 who buried his master's talents for fear of losing them. Upon his return, the Master scorned this servant for

**INVESTING
LONG-TERM
CHURCH
MONEY IS AN
AWESOME
RESPONSIBILITY!**

not using the talents entrusted to him wisely.

That is why "Asset Allocation" is very important in the investing process. Asset Allocation is the process of diversifying one's portfolio so as to spread the risk of investing across many asset classes and many styles of investing. It is making sure you don't put all your eggs in one basket.

The DSUMF has chosen a 60% stock and 40% bond asset allocation model. The stock portion of the portfolio is further

diversified to include both foreign (8% of all stocks in portfolio) and U.S. stocks (92% of all stocks in portfolio.)

The stocks are further diversified into six different asset classes and three different investing styles including small-cap core, mid-cap value and growth and large-cap value and growth.

The Foundation employs professional asset managers that specialize in each of these investment styles and that have 10-year track records with solid, low-risk investment returns. We also choose asset managers that specialize in bonds, both corporate and government. We pay attention to things like interest rates, maturity dates and duration rates.

Once we employ an asset manager, we evaluate them by comparing their performances to their peer group and rating their performances with our own Peer Group Weighted Percentile Ranking System. If a manager's performance falls below our own standards, then the manager is fired and a new one that does meet our standards is evaluated, interviewed and hired.

INVESTING CONTINUED

Does your church use multiple levels of diversification?

Does your church monitor not only the rate of return, but also the manager's performances relative to their peer groups?

Perhaps your church's investment or finance committee is not diversifying its assets and evaluating and monitoring as much as we do. If so, then why not?

For a free, no-obligation personal presentation about our Investment Service call us at: 602-266-6956.

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SEASON FOR
GIVING.**

**IT IS ALSO THE
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"OUT WITH THE
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**WHY NOT
COMBINE BOTH
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OUR VEHICLE
DONATION
PROGRAM
BY GIVING YOUR
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