DOLLAR SEN$E

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

Vol. III: Issue 4 A Service of the Desert Southwest United Methodist Foundation April 2005

WELCOME!

This Newsletter's purpose is to provide 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 <u>DOLLAR</u> <u>SEN$E</u>, information under the following headings is provided:

ENDOWMENT FUNDING

ESTATE PLANNING

CHARITABLE GIVING

INVESTING

Desert Southwest United Methodist FOUNDATION

DSUMF

602-266-6956

Our Web Site receives several hundred visits per month. Most visits access our newsletter, but while folks are at the site, they are also visiting many of the other pages of information available. If you haven't checked out the whole site yourself, there is no better time than now! Visit dsumf.org and "click a brick" to take the full tour!

ENDOWMENT FUNDING

The 1988 General Conference of the UMC, recognized the place of "planned giving" in the stewardship program of the local church by enacting legislation enabling the existence of a **Permanent Endowment Fund Committee** in every United Methodist Church. This legislation was up-dated in 1992 and again in 1996. While this Committee is not included as a part of the *"required organizational structure"* of a church, it can be one of the most important committees in the church.

<u>The Discipline</u> - 1996 sets forth this permissive legislation in Paragraph 2533. This paragraph indicates that a Charge Conference may establish a local church Permanent Endowment Fund Committee.

The Charge Conference, which elects other officers and leaders of the local church, can elect and empower a Permanent Endowment Fund Committee, and this Committee can provide vital leadership to this important aspect of the local church's stewardship program.

Prior to 1996, **<u>The Discipline</u>** provided for a "Wills and Estate Planning Task Force," but very few churches organized such Task Forces. In **<u>The Discipline</u> - 2000**, no provision is made for such a Task Force, but many of the responsibilities that were given to the old "Wills and Estate Planning Task Force" have been given to the Permanent Endowment Fund Committee.

Paragraph 2534 of **<u>The Discipline</u> - 2000** permits the organization of local church foundations. In the opinion of the DSUMF, however, we recommend the organization of a Permanent Endowment Fund Committee and the establishment of an Endowment Program in the local church instead of creating a church foundation.

Our recommendation is based largely on costs in terms of dollars and time. The creation of a church Foundation requires: 1) Articles of Incorporation, 2) By-Laws, 3) Board of Directors, 4) IRS Tax ID Number, and 5) an Annual Audit, which is separate from the church's Annual Audit. All of these activities involve lawyers and accountants and they usually involve money. When a foundation is in its beginning stages, it usually doesn't have much money to start with, so the costs of lawyers and accountants are usually prohibitive.

A Permanent Endowment Fund Committee, which works cooperatively with the DSUMF, is preferred as a simpler, less costly

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and more effective approach. In our next issue, we'll explore the steps required to get your church's Permanent Endowment Fund up and running.

"The Church is of God and will be preserved to the end of time."

ESTATE PLANNING

We've spoken about Living Wills, Health Care Powers of Attorney and Health Insurance Portability and Accountability (HIPAA) Waivers before. But with the Terri Schiavo Case so prominent in the local and national news over the past several weeks, I thought we should review these documents and what they can do for you.

Without taking either "side" and without getting into who said what to whom and when in the Schiavo Case, suffice it to say that the family disagreed with the husband in terms of Mrs. Schiavo's care after her debilitating heart attack 15 years ago. Terri Schiavo's wishes were not written down anywhere. This lack of documentation regarding final health care issues enabled parties on both sides of an issue to disagree with each other and to play that argument out in the courts for many, many years.

One of the lessons for all of us to take away from this case is the importance of thinking about and then deciding how you want your body to be cared for in the unfortunate event that you slip into a persistive vegetative or comatose state. Once decided, then you must establish, ***<u>in writing</u>***, those wishes.

Each state in the country has their own set of laws regarding such issues. You must take advantage of the laws in order to derive their intended benefit.

We recommend to those who attend our estate planning seminars that there are 3 documents one should consider to keep things from getting as contentious as they did in the Schiavo Case: 1) the living Will, 2) the Health Care Power of Attorney, and 3) the HIPAA Waiver.

The Living Will is a document created and executed according to state law. It becomes effective when the patient cannot communicate, **and** has been terminally diagnosed, **and** the medical personnel have been notified of the existence of the document. The document specifies the types of care that are to be provided.

The Health Care Power of Attorney is a contract that you enter into with another of your choice while you are legally capable. This contract identifies the person of your choice as having the legal authority to make health care decisions on your behalf because you are incapacitated and incapable of making such decisions.

The Health Insurance Portabilty and Accountabilty (HIPAA) Waiver, when properly executed, enables medical professionals to disclose the patient's records to those listed on the Waiver. Armed with all 3 of these documents, a patient can be reasonably comfortable that their "end of life" wishes will be carried out.

Finally, and without unnecessary elaboration, I'll point out that I sympathize with everyone involved in the Terri Schiavo Case. The circumstances here are tragic for all concerned. With proper planning, you can prevent such tragedy befalling you or your loved ones.

CHARITABLE GIVING

The DSUMF is ready willing and able to assist you with all your charitable giving questions. Over the years, we've helped people in our churches with all types of giving techniques ranging from the simplest technique that involves writing a check, to the most complex technique which involves the creation of Charitable Remainder Unitrusts. Recently, we agreed to become the Financial Agent for a Charitable Remainder Unitrust (CRUT) that will benefit one of our North District churches. As a CRUT Financial Agent, we monitor the trust's investment activity, recommend distributions to the income beneficiary, produce year-end statements, and complete the IRS information returns required of such trusts.

The CRUT is a giving vehicle that enables a donor to remove large assets from their total net worth and place them into the ownership of the trust. The trust then distributes income to the donor and or other beneficiaries according to the details established in the trust. The donor can choose to be the manager and maintain complete control of all the trust's activities. On the other hand, the donor can choose someone else or some entity like the DSUMF to handle some or all of the responsibilities.

Some of the benefits of such giving vehicles include: 1) an avoidance of capital gains taxes when the trust is funded with appreciated assets, 2) an income tax deduction, 3) a guaranteed stream of income for the beneficiaries' lives, and 4) a significant gift to the donor's church.

An example of an actual CRUT involves another donor from a different North District church. This donor created a CRUT in 1999 with a gift of appreciated securities totaling $209,000. The donor chose to receive a 5.1% payout from the trust in semi-annual payments for the remainder of the donor's life. The donor was 62 years old with a 20 year life expectancy at the time the trust was created.

Based on certain IRS formulas and investment assumptions, this CRUT provided the donor with a $92,000 income tax deduction. It is expected to distribute over $405,000 to the donor during the rest of his lifetime. It is also expected to have a remainder (amount left in the account after the donor's death) of approximately $600,000. The remainder is to be distributed in certain proportions to 4 different charitable entities, including the donor's church.

As you can see from the example, Charitable Remainder Unitrusts are very powerful charitable giving techniques. If you would like some members of your church to learn more about these and other giving techniques, then give the DSUMF a call. We'll be happy to meet with small groups or individuals at your convenience. Call us at 602.266.6956 Ext. 203.

For All Your Charitable Giving Questions or Needs, Contact DSUMF at 602.266.6956 Ext. 203.

INVESTING

In the last issue of DOLLAR SEN$E, we listed the 7 Uniform Fiduciary Standards of Care that are common to 3 different acts of Congress that shape the investment process for anyone or any group that sits in a position of having fiduciary responsibility over an investment process. The vertical axis of the Prudent Investment Matrix is comprised of the 7 Uniform Fiduciary Standards of Care.

This month we'll discuss the 5 Step Investment Management Process. These steps make up the horizontal axis of the Prudent Investment Practices Chart. By the time we complete this chart over the next few issues, we will have listed all 27 investment practices required by 3 acts of Congress.

The **First Step** in the Investment Management Process is to analyze the church portfolio's current position. The portfolio's position is to be analyzed with regard to published investment policy statements, written service agreements, self-dealing, conflict of

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interest, protection against theft and embezzlement, and timing and distribution of cash flows. In the analysis of the portfolio's position, fiduciaries are also required to determine investment goals and objectives, an asset allocation strategy, choose "prudent experts," and monitor the overall investment program for compliance with written policy.

The **Second Step** involves the diversification of a portfolio. Fiduciaries need to identify an acceptable level of risk and its concomitant level of return. An investment time horizon must be identified. Asset classes are to be consistent with the identified risk, return and time horizon. The portfolio's investment strategy must be detailed so as to define duties, responsibilities, diversification and portfolio rebalancing activities.

Step Three of the Investment Management Process involves the formalization of the organization's investment policy. The investment policy statement defines due diligence criteria for investment decisions, monitoring criteria for "prudent expert" evaluations, controlling and accounting for the investment process. When appropriate, this step of the process also considers socially responsible investment strategies.

Implementing Investment Policies is the topic of **Step Four** in the Investment Management Process. Part of the implementation process requires a constant eye on "Due Diligence" activities such as monitoring "prudent experts'" performance relative to peer groups and assumed risk. Keeping record of the inception date of the product, total assets in the product, holdings that are consistent with socially responsible investing, expense ratios, and organizational stability are also requirements of this step in the process.

Step Five in the process involves comparing actual results to previously established performance objectives. Control or accounting procedures play a large role in this step of the process as well.

If your church has long-term investment money and members of your church have been selected or volunteered to manage the investment process, then they should be following both the 7 Uniform Standards of Care and the 5 Step Investment Management Process. If your church's volunteer fiduciaries are not operating within Prudent Investment Practice Guidelines, then they can be held ***personally liable*** for losses your church's portfolio may experience. Ignorance of the law is no excuse!

If you're not sure about your church's Investment Management Process, then ask questions! This isn't about pointing fingers at anyone. This process is about doing it right so as to reduce the level of risk, while maximizing the rate of return. Maximum returns on investment will result in maximum funding of mission, ministry, scholarships, etc.

Instead of learning about the Standards of Uniform Care and the Investment Management Process and the 27 Prudent Investment Practices and then doing all the work required to re-invent the wheel that we've already created, why not use the DSUMF Investment Service? Give us an opportunity to talk to you about our nationally recognized investment service. The presentation is 40 minutes and it is free. What do you have to lose? Contact rick@dsumf.org to schedule your Investment Service presentation now!

DSUMF Proudly Welcomes El Divino Salvador UMC into our Fabulous Family of Investors

Come to our Annual Investment Workshop in the Conference Center's Galvan Room on

**APRIL 20, 2005
AT 10:00 AM**

LUNCH WILL BE SERVED!

RSVP ASAP!