

DOLLAR SENSE

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

Vol. IV: Issue 5 A Service of the Desert Southwest United Methodist Foundation May 2006



This Newsletter's purpose is to provide clergy and lay leaders of the Desert Southwest Annual Conference's agencies, boards and churches 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:

ENDOWMENT FUNDING

ESTATE PLANNING

CHARITABLE GIVING

INVESTING



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

Thank you for continuing to visit our website. This month, in addition to a new newsletter, we posted new information in both our "Charitable Giving" pages, as well as our "Consulting" pages. Go to "Charitable Giving" and click on our new offering regarding Donor Advised Funds, or go to "Consulting" and click on complete information about our new fundraising program called "The G.R.E.A.T." Program.

As always, if you have comments about this newsletter, please send them via e-mail to rick@dsumf.org.

Alaska in August!



Reservations increase weekly. Don't delay. Reservations and final payments must be made by June 2, 2006!

Call 1-800-848-7120, ask for Heather NOW!



In a recent exchange of e-mails with the Chair of a church's foundation board, we discussed the importance of having an Endowment Fund Distribution Policy. To begin with, the word "endowment" means to never invade the principal of a gift. With that concept imbedded on our minds, we proceed with a plan to distribute earnings generated by investing the principal.

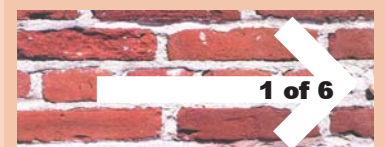
Before developing the plan, there are some other definitions you must develop for your church. For example: What is your definition of earnings? The four possible sources of income for a portfolio include: 1) interest, 2) dividends, 3) realized, and 4) unrealized gains. Most everyone understands the first three items, but "unrealized gains" throws people off. An "unrealized gain" in a portfolio results when your "prudent experts" continue to hold a security that they purchased sometime in the past that has increased in value. The increase in the value of

the security is reported as an "unrealized gain" because the prudent expert continues to hold the security. Only when the prudent expert sells the security does the "unrealized gain" become and actual "realized gain."

The importance of this detail rests in your definition of "earnings." The DSUMF's definition of earnings is "total return," which means we include "unrealized gain" in our calculations even though the actual "cash" dollars are not realized until the security is sold for a gain.

Other operations may define "earnings" as interest, plus dividends, plus realized gains. Whatever your definition, it is important to remain consistent and to have the proper accounting procedures in place.

After you've defined "earnings," the next step is to decide if you are going to distribute all of the earnings available, or if you are going to force growth in your



ENDOWMENT FUNDING Continued

endowment fund by distributing something less than 100% of your earnings. When we have an opportunity to meet with a donor prior to making the gift, we ask if they want to force growth in their fund, and if so, then how much? Currently, we manage endowment funds that require reinvestment of 20% of the total earnings with the principal at year's end. We manage other endowment funds that force less growth and we have yet other endowment funds that we inherited from the Cal Pac Annual Conference Foundation in the early 1990's that did not address the growth issue at all.

Once you have defined "earnings," and decided on growth or no growth in your funds, the next issue to deal with is investment losses. What will your distribution policy dictate when there are no earnings in your endowment fund to distribute because of losses due to market conditions? In order to make distributions when the markets are down, will you borrow funds from the principal of the endowment, with a promise to repay the "loan," when the markets

go back up? Or, will you discontinue distributions until the markets are up enough to have generated new earnings?

These are not easy decisions. During the mid to late 1990's when the markets were roaring, the DSUMF adopted a policy regarding "inherited" endowment funds under our management that had made no provisions for forcing growth. Some of these accounts were endowed scholarship funds. We decided that even though we could distribute 100% of the earnings, we would not. Instead, we turned all undistributed earnings into "reserves." The reserves were also reinvested, but accounted for separately. When the markets turned downward for thirty months from 2000 to 2002, we were actually able to continue to fund scholarship requests during that time because of undistributed "reserves" accumulated in the late 1990's.

There is no right or wrong as distribution policies go. The point is, however, that you should have an Endowment Fund Distribution Policy in place. You should also have proper accounting procedures in place so you can track the intentions of your policy.

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

**Recycle Your Old Cell Phone with DSUMF.
Bring Your Old Cell Phone to Annual Conference 2006.
Better Yet, Bring a Bunch of Old Cell Phones from Members of Your Church to Annual Conference 2006!**

ESTATE PLANNING

Although it is very difficult for most people to think about preparing for their own death, it is important to make the decisions that will best support your loved ones quickly and in the most cost effective manner. Estate planning is a process that is every bit as much about your asset distribution plan as it is about being considerate of the loved ones you leave behind. Estate planning, therefore, is just a matter of being a good steward of your assets.

While most people know it is important to plan an estate, many do not know the differences between a Last Will and Testament and a Revocable Living Trust. There are many advantages of using a Living Trust, instead of a Last Will and Testament to control the disposition of your estate after death.

The greatest benefit of a properly funded Living Trust is the avoidance of probate. This document contains similar language to that contained in the Last Will and Testament in that you instruct how your final affairs are to be handled and who will receive your assets after your death. Unlike a Last Will and Testament, however, a properly funded Living Trust is not administered through a probate court. This gives you, through your written instructions, and your survivors, not the courts, control over your own assets.

The Last Will and Testament guarantees a probate, and the probate process takes between 9 months and 2 years before your heirs can inherit. With a Living Trust, the process is dramatically quicker; it could take less than a couple of weeks. If you own property in other states, a Living Trust is especially advantageous, because you will avoid multiple probates.

In addition to taking lots of time, the probate process can also be quite costly. Probate administration costs range from state to state and are dependent on state probate laws.



ESTATE PLANNING CONTINUED

Nationally, the cost to probate an estate ranges between 3% and 5%. However, that range is significantly higher in many states, California to name one. By creating and funding a Revocable Living Trust (RLT), you opt out of the probate system, and the delays and expensive court costs and legal fees associated with it.

RLTs are easy to set up, maintain, and can be changed or canceled at any time. They are more difficult than a Last Will and Testament to contest, because a person wishing to contest a Revocable Living Trust must meet the requirements to file a civil lawsuit. Properly constructed RLTs can also accomplish something a Last Will and Testament cannot. In cases where subjects of a RLT become physically or mentally incapacitated, the RLT will prevent court control of their assets.

By Law, the Last Will and Testament becomes effective at the time of death. Therefore, people who do not have proper estate planning documentation detailing care instructions in the event of physical or mental incapacitation, must have a guardian to

make financial and health decisions on their behalf. In these cases, a probate court appoints a guardian to oversee their care, keep detailed records, and report to the court for approval of all expenses. In contrast, if you and your spouse are acting as the trustees of your own RLT, and one of you becomes disabled or incompetent, the other trustee can easily serve as trustee without court-administered guardianship proceedings. This can save the family a great deal of money, and reduce the stress and anxiety associated with guardianship. A child or trusted friend or relative can serve as trustee if you are unmarried or if your spouse cannot serve.

There are many other benefits of having a RLT over a Last Will and Testament. Unlike a Last Will, which is a matter of public record, RLTs allow your family to take care of your financial affairs privately. This can allow your family to be protected against disgruntled heirs and unscrupulous solicitors. Not only does the RLT allow for quicker distribution of your assets to your beneficiaries, it prevents the court from controlling assets when minor children inherit and can also prevent unintentional disinheritance. If your

situation involves a privately held business, a RLT can provide a smooth transition of ownership from you to the successor trustee of your choice.

A RLT can give you maximum control during lifetime as well as after death in terms of the distribution of your assets. It allows you to dispense of your property quickly, cost effectively, and in the manner that you choose. It is a powerful instrument that gives you control over who will administer your estate. A RLT might save your estate a lot of money. The RLT gives you the control and flexibility you want over the management of your estate, and it gives you peace of mind when it comes to feeling secure about your loved ones' future.

Does your Endowment Fund Program or Foundation need a little financial shot in the arm?

Could your program benefit from an extra \$50,000, \$500,000 or more?

If you answered "YES" to either one of these questions, then

DSUMF HAS A **G.R.E.A.T. PROGRAM FOR YOU!**

**CALL US AT:
602.266.6956 x 203**

CHARITABLE GIVING

Recently, the DSUMF was approached by donors who wanted to establish a Donor Advised Fund. What is a Donor Advised Fund (DAF)? It is a charitable giving vehicle that provides donors simple, flexible, efficient ways to manage their charitable giving activities through one fund established at one organization. The DAF enables the donor to enjoy immediate and maximum tax advantages for their contribution into the DAF, but it also permits the donor to make recommendations as to future distributions from the fund, over a period of time, on the donor's flexible time table, to a variety of non-profit organizations of their choice.

Contributions to a DSUMF DAF (minimum \$25,000) can be made via cash, stocks, bonds, mutual funds, real estate, etc. Once received, the donor's initial funding will be invested by DSUMF. The manner in which the funds are invested will depend on the donor's distribution intentions (short or long-term). Investment options will





also depend on the amount of the initial funding.

So long as United Methodist-related institutions make up the majority (51%) of the total distributions from your Donor Advised Fund, DSUMF will act as a platform for donors and their professional advisors to design and conduct their charitable activities as effectively and efficiently as possible.

DSUMF DAF Donor Benefits:

1. Immediate and Maximum Tax Benefits

Because DSUMF is a 501 (c) (3), qualified, non-profit organization, contributions to a properly established Donor Advised Fund immediately qualify for maximum tax benefits subject to donation ceilings as determined by the Internal Revenue Code. Gifts of appreciated securities enable the donor to avoid capital gain taxes and may enable the donor to reduce or eliminate federal estate taxes, because the gifts are irrevocable and permanently removed from the donor's estate and total net-worth calculations.

2. Tax Free Growth (which means more dollars for charitable purposes)

Investments in your DSUMF Donor Advised Fund will grow in a tax-free environment due to our non-profit status. Tax-free growth in an investment may support more distributions in the future, but this will depend on market conditions. The DSUMF Donor Advised Fund lets you structure your giving over time, enabling you to leverage the impact of your grants to worthwhile causes.

3. Privacy

Charitable giving can be quite personal. You may want to place a buffer between yourself and grant distributions. Upon distribution of approved grants, a DSUMF DAF permits you to select recognition or anonymity as desired.

4. Simple and Effective Fund Management

With a DSUMF DAF, you can eliminate the year end pressures, of scrambling for a place to make a tax-deductible donation or hunting through files for charitable donation receipts. You can recommend grants from your DSUMF DAF via e-mail or fax, but you will need to follow your digital recommendation with an actual, physical form with signature required. Our accounting process will track not only

your giving over time, but also the results of our investment service as it relates to market gains (losses) in your Donor Advised Account. Whether your funding of a DAF is a one-time occurrence or a continuing activity, we will always provide you with all the proper documentation needed to substantiate your tax reporting.

5. Creation of a Lasting Legacy of Giving

You can start small and build over time or maximize your initial contribution. Donors typically establish a DAF to act as a multigenerational family fund for their current and future charitable giving activities. For example: you can personalize the account with a family name (e.g., "The Smith Family Fund"), involve family members in recommending grants, and even name successor advisors who will have the authority to initiate grant-making recommendations in the future, after you've passed away.

For more, detailed information regarding DSUMF DAFs, go to our web site. Click on "Charitable Giving," then click on DSUMF Donor Advised Funds. When at the site, you can print a DAF circular, complete with a Donor Advised

Fund Application Form and a Donor Advised Fund Grant Recommendation Form. Please contact us if you have any questions!

The Spring Calendar is full!

Schedule an Estate Planning or a Charitable Giving or a G.R.E.A.T. Program Presentation for the Fall NOW!

We already have presentation dates scheduled for both the Fall of 2006 and the Spring of 2007.

DO NOT DELAY!

Schedule your next seminar NOW!





Many, many months ago, when interest rates were at an all-time low (1.0%), it wasn't difficult to figure out that interest rates would go up. When short-term interest rates go up, the value of the principal in bonds goes down. In recognition of this, the DSUMF Investment Committee decided to protect the principal of the bond portion of our portfolio by shortening the duration of the bonds purchased by our asset managers. So, instead of holding a lot of bonds with long-term maturity rates, the Committee instructed our bond asset managers to purchase intermediate-term bonds with maturity rates in the three-year time frame.

This turned out to be an excellent move on the Committee's part because the interest rates did go up from 1.0% to 4.75% currently.

In December 2005, the Investment Committee continued to see rising interest rates as a threat to the principal in the bond portion of our portfolio. Acting on the advice of our Wachovia Securities, LLC advisors, the Committee explored an alternative investment to intermediate duration bonds.

The alternative is the 7-Day, Auction Rate Preferreds, or ARPs as we call them. These instruments look and act like a bond in that they "dump" dividends into our account on a regular, weekly basis, but they are technically traded as preferred stocks. The dividends received from these investments are variable, and ARP risk is very, very low. As a matter of fact, the overall market would need to decline by 67% in one week in order for these instruments to be at risk of losing principal.

Since taking \$1,000,000 from the bond portion of our portfolio in January 2006 (approximately 25% of the bond portion of the portfolio), the ARPs have performed very well. As previously mentioned, the dividends received are variable, but their actual rates of return since January 2006 have ranged from a low of 3.97% to a high of 5.07%, with an averaged, annualized rate of return of 4.35%. This would translate into a +1.0875% return for the first quarter of 2006.

Now, I realize that none of us are going to go on a "distribution spree" with annualized ARP earnings at 4.35%, but this is just part of the picture. To put this annualized rate of return into perspective, we must compare these

rates of return to those being achieved by our bond asset managers. One of the bond managers achieved a -0.5% for the first quarter of 2006; the other achieved a -1.0%. So, instead of losing value as we have with some portion of our bond portfolio, we actually gained value with the ARPs. Because of their lower-than-bond risk level, we have also reduced the overall risk level in our total portfolio at the same time.

These instruments have performed so well in terms of lowering portfolio risk and maintaining principal in the first quarter of this year that the Investment Committee recently decided to further reduce our "loss-of-principal" exposure in the bond portion of our portfolio, by using \$275,000 of bond principal to purchase more ARPs. Once again, the DSUMF Investment Committee has made an excellent decision as they continue to refine our investment strategy in order to be able to provide our depositors with the best possible rate of return for the least possible amount of risk.

Interest received from bonds is not equal to total rate of return.

DSUMF

Donor Advised Fund Accounts

enable donors to enjoy immediate and maximum tax advantages for contributions, but they also permit donors to make suggestions as to future distributions from the account.

Distributions can be made over a period of time, on the donor's schedule, to a variety of non-profit organizations.

CHECK OUT DSUMF's DAF ACCOUNTS AT DSUMF.ORG



SIDE NOTE

DOES YOUR CHURCH HAVE ALL THE MONEY IT NEEDS TO ACCOMPLISH IT'S GOALS?

IF SO, THEN DSUMF LEADERSHIP TRAINING EVENTS ARE NOT FOR YOUR CHURCH!

TO SECURE YOUR CHURCH'S FINANCIAL FUTURE,

ATTEND ONE OF THE REMAINING DSUMF LEADERSHIP TRAINING EVENTS IN 2006!

Throughout the day, beginning at 9:30 AM, a presentation will be made in five different areas that effect a church's financial future. It is highly recommended that you send 4 to 6 representatives from your Finance Committee, Foundation Board, Endowment Fund Committee, Stewardship Committee, and Board of Trustees to the event scheduled for your district or cluster. Almost two dozen differ-

ent churches sent representatives to the East, West and South District Leadership Training Events. All who attended one of these sessions were very appreciative of the information and materials presented.

All attendees intend on using the new information to begin the process of securing the long-term financial futures of their churches.

If you are interested in helping your church begin the process that will result in securing the long term financial health of your church, then you should attend one of the remaining events.

Training Topics Include:

1. **Creating and Operating a Permanent Endowment Fund Program at Your Church.**
2. **Charitable Giving in Your Church.**
3. **Charitable Gift Annuities & The G.R.E.A.T. Program**
4. **Encouraging Bequests to Your Church Through Estate Planning.**
5. **Investing Your Church's Long-Term Money.**

Sites and Dates:

**Flagstaff Cluster
Trinity Heights UMC
May 20, 2006**

Due to the lack of pre-registered attendees, the

**North District
Training Event
was
Postponed 'Til
Fall 2006.**

In order for the DSUMF to justify expenses associated with conducting such events, we must be reasonably sure that people will attend, so please pre-register your attendance!

The registration fee for members of your church follows:

1. First two = \$25 each,
2. Next two = \$15 each,
3. All the rest = \$10 each.

For \$100, you can send 6 people who will have the opportunity to meet and interact with like-minded United Methodists from other churches, receive more than 250 pages of the best written materials we know how to produce, and of course, lunch will be served.

All the training materials will be burned onto a CD, which will automatically open when you put it into your computer.

Registration fees may be paid via check made payable to "DSUMF." If you wish, we can invoice your church for the registration fee, but please register!

To register, just call and we'll take your reservations over the phone!

**Register Now!
Call us at:
602-266-6956
Ext. 203**

**Vehicle Donation
Tax Laws Changed
in January 2005.
Even Though
Tax Laws Have
Changed, We Are
Still Accepting
Used Vehicles!**

**Under New Tax Laws,
You Qualify For A
Deduction Equal
To The Amount
For Which The
Vehicle Sells.**

**60% of all sale proceeds
will be distributed to
Your Favorite
United Methodist
Ministry.**

**DONATE YOUR USED
VEHICLE NOW!
CALL:
602 - 252 - 1360**

