DOLLAR SEN$E

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

Vol. V: Issue 4 A Service of the Desert Southwest United Methodist Foundation April 2007

WELCOME!

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 SEN$E, information under the following headings is provided:

ENDOWMENT FUNDING

ESTATE PLANNING

CHARITABLE GIVING

INVESTING

Desert Southwest United Methodist FOUNDATION

DSUMF

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THANK YOU!

Well, the April Fool is me! It has taken me too long to get April's issue of DOLLAR SEN$E out to you. I would like to blame it on "technical difficulties," or "PDF conversion problems," or "writer's cramp," or some such thing, but none of those excuses apply. I've been finding plenty of things on my "to do list" lately, and I just kept putting this publication off on the "back burner." So, here it is and thank you for your patience!

ENDOWMENT FUNDING

Gifts from one's estate after death, or deferred gifts, are important sources of funding for endowed funds. Deferred giving vehicles are often associated with establishing or augmenting endowed funds, but endowed funds can also be created by outright current cash gifts. An endowed fund is a gift arrangement established in perpetuity, through which the principal of the fund remains intact and only the earnings from investments are paid out. Payouts are usually made from the previous year's earnings. Endowment funds can be used to support scholarships, programs, mission projects, operating budgets, professorships, etc.

The creation of an endowment fund speaks to creating a lasting future for an important program, project, etc. Once the endowed fund is created, it needs to be managed. Management of an endowed fund involves investing for both capital appreciation and income. It involves accounting for interest, dividends, realized and unrealized gains or losses, deposits and distributions. Management also includes making sure all accounting activities are audited.

Wise stewardship of an endowed fund will involve Investment Guidelines, written accounting procedures, "Use of Funds Statement," and a public report about the fund on an annual basis. A "Use of Funds Statement" will usually indicate an amount, on a percentage basis, of how much of the previous year's earnings should be distributed for the intended purpose, i.e. 75%, 85%, etc. The Statement should also specify that a specific percentage of the earnings

ALERT!

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DATES FOR OUR CRUISE TO THE MEXICAN RIVIERA HAVE CHANGED!

WE DEPART FROM SAN DIEGO, CA ON 10/27/07.

WE ARRIVE BACK IN SAN DIEGO, CA ON 11/03/07.

MAKE YOUR RESERVATIONS NOW!

dsumf.org

ENDOWMENT FUNDING Continued

should be placed into a "Reserve Account," and the final portion of the earnings should be placed back into the Principal so as to force growth in the endowment fund. More growth equals more distributions in the future.

Endowment funds are by no means a "quick fix" to any financial need. But a well funded, well managed endowment fund can be a "permanent fix" to a financial problem.

Soon you will be hearing a lot about the "Forward in Their Footsteps Endowment Campaign." The purpose of this campaign is to generate immediate cash gifts to establish an endowed fund that will support the urgent need to start new churches throughout the Desert Southwest Conference. Deferred gifts will be solicited to augment the fund after it is created. There are Investment Guidelines, written accounting procedures, audit procedures, Use of Funds plans, and public reporting procedures in place. All we need now is your leadership and financial support of this campaign.

Our sustained population growth explosion over the last two decades, combined with a lack of significant funds to start new churches places the Desert Southwest Conference as one of the most "unchurched" areas in all of United Methodism. There is no "quick fix" solution to this problem. We need your help to permanently fix this growing problem. The creation and proper management of the Endowment Fund to New Churches will be a permanent solution to our problem.

Time to Get a New Cell Phone?

Recycle Your Old Cell Phone with Us!

Bring Your Old Cell Phone to our Exhibit Table at Annual Conference 2007.

Better Yet, Bring a Bunch of Old Cell Phones from Members of Your Church. Set up a Collection Box Now.

Bring All Your Old Cell Phones to Our Exhibit Table at Annual Conference 2007!

ESTATE PLANNING

If you've ever attended one of my estate planning seminars, you've heard me suggest that the Revocable Living Trust is a document that everyone should consider to be a part of their overall estate plan. In broad terms, any trust is an obligation upon a person to use property faithfully and wisely for the benefit of another. Here are many types of trusts and how they might best be used depends on each individual's financial circumstances as well as tax laws and their constant revisions.

But why do Revocable Living Trusts work? Our current trust laws have their basis in 13th century England. At that time and place, three principles of feudal law were well-established:

1. Land could not be distributed by Last Will and Testament,

2. The eldest son exclusively received his father's estate, and

3. A bride's personal property became the bridegroom's property immediately upon marriage.

A combination of these 3 laws maintained the feudal system and created hardships for women, children, and even the eldest sons. Men began searching for ways to circumvent the laws so that they could better care for their loved ones.

The most common and most effective way around the problems became an agreement between trusted friends for one to hold another's land, but exercise no influence over its management during the original owner's lifetime. After the owner's death the trusted friend took over management of the land and by previous agreement turned the proceeds of management over to the decedent's wife and children.

Over the centuries, challenges were made by families who became victims of untrustworthy "friends," and these "trust agreement" practices went through a variety of legal challenges. The two main aspects of the origin and evolution of trusts are significant for our purposes.

First, the early agreement between trusted friends was devised to ensure continued equitable use of property for the benefit of one's family and to avoid unnecessary taxes. To this day, trusts are used for the very same reason.

Second, the success of a trust rests wholly with the honesty and integrity of the trustee. The two-part test

ESTATE PLANNING
CONTINUED

you need to apply to your choice of trustee for your trust is: 1) is the person completely honest, and 2) will the person manage your assets for your benefit and not their own? Do you know any unselfish completely honest people? If so, then they need to be considered as trustees for your Revocable Living Trust!

Death is not a matter of "IF," it is only a matter of "WHEN." Plan your estate NOW!

INVESTING

Should your church foundation and its investing activities be audited? The question needs to be answered. Like many other decisions a board needs to make, this one is a value judgment for which there is no absolute answer.

Audits have two costs: time and money. The **"time"** part of an audit includes staff or volunteer time to prepare for an audit, as well as the time spent by the auditor(s) tracking your foundation's financial transactions, looking at internal controls, assessing the potential for fraud, etc. The **"money"** part of an audit involves staff time (salaries, benefits, etc.), and audit fees. Independent audits are not cheap, therefore, the values to be derived from an audit must be considered carefully.

An audit is a series of procedures followed by an experienced professional accountant to test, on a selective basis, transactions, and the internal controls in effect, all with a view to forming an opinion on the fairness of the preparation of the financial statements. A non-profit audit is even more specialized because of special accounting rules non-profit organizations must follow.

What are the benefits that can be expected from an audit? There are five. The first four are listed below:

1. Credibility of the financial statements,

2. Professional assistance in developing meaningful financial statements,

3. Professional advice on internal controls, and

4. Professional assistance with compliance requirements.

Of the four benefits listed above, perhaps the "internal control" benefit is the most important. Most church foundations operate unaware of the need for basic internal controls. "Internal control" is a system of procedures and cross-checking, which, in the absence of collusion, minimizes the risk of misappropriation of assets or misstatement of the accounts. A good internal control system maximizes the likelihood of detection if embezzlement occurs. We would like to think that the chances of embezzlement in a church organization are slim. However, the internal control system is also to prevent an honest employee or volunteer from making a mistake that could ruin their lives.

The first part of an internal control system is the creation of a budget. All board members should be involved in its approval. All subsequent transactions need to be tied to some line item in the budget. Other internal control elements include: 1) controls identifying who opens the mail, 2) controls over how is cash handled, 3) controls over other receipts, 4) controls over deposits, 5) controls over disbursements, etc.

Presumably, a church foundation in existence for any length of time has accumulated funds from memorials, gift annuities, bequests, etc. that are invested. The proper investment process for church foundations and other non-profit organizations is prescribed by three different acts of congress and their resulting 27 prudent investment practices. An audit is required if the church foundation or other non-profit organization chooses to adhere to these practices.

It is a Conference Rule in the Desert Southwest Conference, that all entities doing work "under the cross and flame of the UMC" must have an annual audit. If your church foundation is operating without a formal audit and is out of compliance with even one of the 27 prudent investment practices, then individual board members may be ***personally liable*** for the funds under their care.

Therefore, the fifth and most important benefit for conducting an annual audit is to protect the staff and volunteers from being personally liable in the event an honest mistake is made in the accounting and investing process. In this regard, an audit acts as an "insurance policy" of sorts, protecting innocent, well-meaning staff or volunteers against the potentially life-ruining consequences of an honest mistake.

DON'T BE PERSONALLY LIABLE FOR YOUR CHURCH'S LONG-TERM INVESTMENTS!

CHARITABLE GIVING

I've written about the Pension Protection Act of 2006 a couple of times over the last several months, but here I go again for the last time – I promise. The primary focus of the act was to protect pensions – the company sponsored types and in 900 pages this law also tackles a whole lot of other issues.

For example, the act raised the ceiling on contribution limits you may make to your 401(k)s, 403(b)s, and IRAs. For 2007, the maximum contribution level was raised to $15,500 and up to $5,000 for those who are over 50 years old who want to contribute "catch up" amounts to a "Catch up" IRA.

Another issue this act addresses involves the ease with which you can shuttle funds from former employers' retirement plans into "Roll Over IRAs." The new law guarantees that rules governing such transfers will remain in force. This means that you may be able to consolidate multiple retirement accounts from a variety of former employers into one single IRA account.

There are new rules for Roth 401(k)s. They have now been given permanent status.

Of course, you know about the tax-free transfer of up to $100,000 from your IRA to your church from previous articles. You must be age 70½ and your transfer will satisfy your annual Required Minimum Distributions (RMDs). Because the distribution is made to your church, it won't be taxed. This action will reduce your income compared to last year, but your IRS bill may be reduced too, which, in turn may reduce the taxes on your Social Security benefits and other income. Such reductions might enable you to regain some other deductions you may have otherwise lost due to high income or lack of ability to "itemize."

While the long-term impact of this new act is unclear at this point. The message being sent here is that the government expects you to take responsibility for your own retirement needs. Social Security was never meant to be a retirement plan. Unless our elected lawmakers get up some nerve and fix the Social Security problem, there won't be any Social Security in the future. The government knows this, so they are trying to provide better tools to you to help you get the job done for yourself.

DON'T FORGET! RESERVE YOUR CRUISE WITH US ON 10/27/07 NOW!

DSUMF

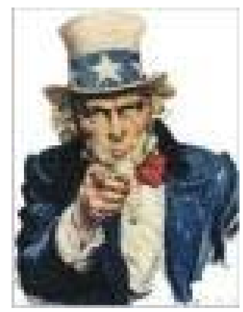
Donor Advised Fund Accounts

enable donors to enjoy immediate and maximum tax advantages for contributions. 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, and to a variety of non-profit organizations. An anonymous donor set up a $250K DAF as a challege to the members of a church to raise an equal amount of money within a certain period of time. The challenge was exceeded by $65K, and the church had an extra $565K when the fund was distributed

CHECK OUT DSUMF's DAF ACCOUNTS AT DSUMF.ORG

DSUMF's Investment Portfolio has grown to more than $13,700,000!

Thank You!



DSUMF Wants YOUR CHURCH to join our Growing Family of church Investors!

Call Us: 602.266.6956 Ext. 203