

**FACTS AND SUGGESTIONS TO THE ELNA BOARD OF DIRECTORS
RE: THE HIRAM ELWIN REED TRUST**

BACKGROUND:

ELNA became the Trustee of this Trust on the death of Surviving Trustee Thomas Oliver Brace on January 9, 2002. ELNA is to hold the estate for the primary purpose of furthering the teaching and use of the international language Esperanto, and is to "...use its discretion to promote the maximum teaching of Esperanto."

ELNA serves as trustee without bond and without compensation. ELNA is directed never to invade the principal of the trust. (Note: This provision ends on January 9, 2023 with the termination of the Trust on that date per Article VIII (B) of the Trust.)

STATUS OF THE TRUST ASSETS AS OF JUNE 1, 2002:

The Trust's Smith, Barney account holds assets in equities, bonds and cash of \$344,274.28. (CK) Cash in Brace's Washington Mutual Checking Account of \$2,563.07 will accrue to the Trust when Brace's pour-over will is probated later this year.

Cash in the Trust checking account at Bank of America is \$9,462.47.

The former Conservator, Barbara Knight, has a small balance in her checking account which she will remit to us after all her expenses are totalled up June 1st. (Rework###)

TAX CONSIDERATIONS:

An Employer Identification Number ("EIN") for the Trust has been requested from the IRS. This will be needed when filing the annual Form 1041 tax return for the Trust. If ELNA handles the income from the Trust correctly, there should be no tax payable on it. No tax will accrue from the sale of the house as it is a non-tax event; the basis of the house on Brace's death became the sale price.

ELNA'S RELATIONSHIP TO THE TRUST:

The Trust is a totally separate entity. ELNA's role is that of Trustee, whose job is to expend the income from the trust in accordance with the trust provisions. To avoid tax on the Trust income, at the end of each year the total income from the trust should be paid to ELNA's "Hiram Elwin Reed Educational Fund" from which fund ELNA may then make any expenditures. It is not necessary to await the end of the year to do this; income may be paid from the Trust fund to ELNA at any time during the year. It is my suggestion that it be paid quarterly as soon as a quarter's total income is known.

ADMINISTERING THE TRUST ASSETS:

Until all of the Trust assets have been realized and gathered into the Smith Barney account, it is my suggestion that I remain the administrator of record for that account. Later the name of the ELNA representative to administer the account can be easily changed, whether to the Chairman of the Capital Investment Committee (as I recommend) or to the Treasurer. I reported the list of current equities and bonds in the Smith Barney account to the Board in an e-mail message dated April 5, 2002.

DISBURSEMENTS OF THE INCOME:

The general terms of the Trust clearly are as set forth under "Background" above. Two specific uses are urged under the Trust:

(1) "Ninety percent of the income shall be used to fund a scholarship, in the name of Hiram Elwin Reed. The scholarship funds shall be used to assist in payment of tuition for a student or students of Esperanto. Each recipient will not be required to repay any scholarship assistance. If in any one year the Trustee does not find a student who, in the Trustee's sole discretion, is deemed worthy of scholarship assistance, the Trustee shall add all income to principal for that year." In the opinion of the attorney who drafted this Trust, if this secondary provision proves infeasible, it may be ignored in favor of the general terms.

(2) "The Trustee may in the exercise of its sole discretion, pay up to ninety percent of the Trust income to pay for all or part of the cost of a professor's wages, if that professor is teaching Esperanto. Said payment to a professor would be called The Hiram Elwin Reed Chair, for the teaching of Esperanto. This use of Trust income would be only if the Trustee decided that the support of the professor would stimulate the teaching of Esperanto more than the granting of scholarships." In the opinion of the attorney who drafted this Trust, if the effect of these two provisions taken together proves infeasible, they may be ignored in favor of the general terms. For example, the endowment of a "Chair of Esperanto" at any university would obviously require far more money than even the principal of the Trust could provide, let alone the income from it.

In other words, so long as ELNA does its best to find ways to comply with these specific provisions, if they turn out to be infeasible, the income should be expended in accordance with the primary purpose, i.e., "to further the teaching and use of ... Esperanto."

SPECIFIC PROPOSALS TO THE ELNA BOARD OF DIRECTORS:

(1) That a new ELNA Fund be established immediately, named the "Hiram Elwin Reed Educational Fund."

(2) That the Board designate or cause to be designated a committee to administer the funds accruing in the Hiram Elwin Reed Educational Fund bearing in mind the principles outlined.

Respectfully submitted,

Wm. R. Harmon
Commissioner for Wills & Gifting

June 21, 2002