VALUATION OF PLANNED GIFTS:
HOW ACCOUNTING, LEGAL, AND FINANCE DEPARTMENTS CAN LIVE IN HARMONY

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BY THE NUMBERS

• Review of Four Different Planned Gifts
  — How do they work?
    ◦ Legal and Development Considerations
  — What are the tax outcomes for donors?
    ◦ Income Tax Deduction
  — How do nonprofits account for planned gifts?
    ◦ FASB Standards
  — How can nonprofits value the benefits received?
PLANNED GIFTS

- Qualified Charitable Gift Annuity
- Charitable Remainder Trust
- Charitable Lead Trust
- Bequests and Other Revocable Commitments
ACCOUNTING CONSIDERATIONS

Some Important Concepts

• Conditional vs. Unconditional
  — Barriers to Recognition
  — When to recognize
• Intent vs. a Promise
  — Revocable vs. Irrevocable
  — Structure of language in agreement is critical
• Split Interest Agreements
• Beneficial Interest Agreements
• Gift acceptance policies
  — Desirability
  — Administration
  — Unintended results from restrictions
  — Disposition restraints
  — Considerations from a donor perspective
VALUATION STANDARDS

• Developed by the National Association of Charitable Gift Planners in 2011

• Intended to compute the present value of the expected future benefit of a planned gift

• Encourage organizations to take into account their actual investment returns and expenses for accuracy

• Help organizations determine the value of planned giving activities

• Facilitate accountability and consistency

• Help determine resource allocation to PG
VALUATION STANDARDS

Five Variables Impacting Valuation

1. Investment Returns
   ◦ Based on an organization’s actual estimated returns on prudent investment of gifted assets
   ◦ Based on default investment expectations
2. Expenses
   ◦ Investment managers, trust/gift administration, etc.
3. Discount Rate
   ◦ Based on charity’s expected cost rise rate
4. Annual Payments to Beneficiaries
5. Term of Gift
   ◦ Based on term of years or life expectancy
QUALIFIED CHARITABLE GIFT ANNUITIES
QUALIFIED CHARITABLE GIFT ANNUITIES

A contract between one or more individuals and a charitable organization, under which cash or other property is contributed by the donor(s) in exchange for a specified annuity amount for life.

The annuity can be for one or two lives (joint and survivor or consecutive).

Charitable org makes regular payments to the annuitant(s) under the terms of the contract and prepares a 1099 for tax reporting annually.
QUALIFIED CHARITABLE GIFT ANNUITIES
Gift Annuity Rates

• The American Council on Gift Annuities periodically publishes suggested rates which more than 90% of all charities typically follow.

• ACGA rates are targeted to produce a gift for charity at the end of the contract equal to 50% of the original funding

• NEW ACGA rates became effective on July 1, 2018.

• New rates represent an increase of .30% to .50%

• Examples:   Annuitant is 60 years old:   4.7% (prev 4.4%)
Annuitant is 70 years old:   5.6% (prev 5.1%)
Annuitants are 71 and 73:   5.2% (prev 4.7%)
QUALIFIED CHARITABLE GIFT ANNUITY (Immediate)

$100,000 → 4.7% QUALIFIED CHARITABLE GIFT ANNUITY → DONOR RECEIVES LIFETIME ANNUITY OF $4,700 → AT DONOR’S DEATH, ASSETS PASS TO CHARITY

- $2,881 TAX-FREE INCOME
- $1,819 ORDINARY INCOME
- AFTER 24.1 YEARS ANNUITY IS TAXABLE AS ORDINARY INCOME

DONOR RECEIVES INCOME TAX CHARITABLE DEDUCTION OF $30,523
QUALIFIED CHARITABLE GIFT ANNUITIES
Income Tax Charitable Deduction

AMOUNT TRANSFERRED TO CHARITY - PRESENT VALUE OF ANNUITY INTEREST = CHARITABLE DEDUCTION AMOUNT
QUALIFIED CHARITABLE GIFT ANNUITIES
Income Tax Charitable Deduction

- Example: 60 year old donor contributing $100,000 for a gift annuity. ACGA rate is 4.7%.

<table>
<thead>
<tr>
<th>VALUE OF THE ANNUITY</th>
<th>CHARITABLE DEDUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>$69,477</td>
<td>$30,523</td>
</tr>
</tbody>
</table>

$4,700 \times 14.7823}\quad \text{IRS Pub 1457 Tables S and K}

$100,000 - $69,477
QUALIFIED CHARITABLE GIFT ANNUITIES

Valuation Standards

Variables for this Example

1. Investment Returns
   – Default Assumption: 5.3%

2. Expenses
   – Default Assumption: 0.9%

3. Annual Payments to Beneficiaries
   – $4,700 annually

4. Term of Gift
   – 24.2 years

5. Discount Rate
   – 3.2% (Highest available 7520 rate; could also use average of inflations rates per Consumer Price Index or industry-specific data)
QUALIFIED CHARITABLE GIFT ANNUITIES
Valuation Standards

60 year old donor/annuitant contributing $100,000 for a gift annuity. ACGA rate is 4.7%

- **STEP 1: Calculate Future Value**

\[
FV = \text{Gift Amount}(1+NR)^N - \text{Payment} \left[ \frac{((1+NR)^N - 1)}{NR} \right]
\]

\[
FV = 100,000(1.044)^{24} - 4,700 \left[ \frac{(1.044)^{24} - 1}{.044} \right]
\]

\[
FV = 281,068 - 193,414
\]

**Future Value = $87,654**
QUALIFIED CHARITABLE GIFT ANNUITIES
Valuation Standards

60 year old donor/annuitant contributing $100,000 for a gift annuity. ACGA rate is 4.7%

- **STEP 2: Discount for Present Value**

\[ PV = \frac{FV}{(1+DR)^N} \]

\[
PV = \frac{87,654}{(1.032)^{24}}
\]
\[
PV = \frac{87,654}{2.12967}
\]

Present Value = $41,158
QUALIFIED CHARITABLE GIFT ANNUITIES

Valuation Standards

60 year old donor/annuitant contributing $100,000 for a gift annuity. ACGA rate is 4.7%

<table>
<thead>
<tr>
<th>Difference between Valuation Standards and IRS Charitable Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value = $41,158</td>
</tr>
<tr>
<td>Charitable Deduction = $30,523</td>
</tr>
</tbody>
</table>
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS

- Components of the split-interest agreement
  - Liability to beneficiary
  - Revenue streams
  - Remainder assets
- When an irrevocable gift is made, record the donated asset at fair value.
- Payable to donor or non-charitable beneficiary will be calculated at the present value of future payments to be made.
- Record a restricted contribution for the remainder interest in the asset.
  - Both liability and income are recorded at present value
- Account for changes in the value of the interest’s underlying assets, including annuity payments, investment earnings, etc. through Contribution Revenue.
- If a split interest is revocable, recognize when received
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

• Example – Qualified Charitable Annuity, using the previous example
  — Value of assets donated = $100,000
  — Gift annuity rate is 4.7%
  — Donor is currently 60 years
  — Calculated value of annuity is $59,998, charitable remainder is $40,002

<table>
<thead>
<tr>
<th>Asset</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>$59,998</td>
</tr>
<tr>
<td>Restricted. Revenue</td>
<td>$40,002</td>
</tr>
</tbody>
</table>

Future payments to the annuitant will reduce the liability. Changes in value of the asset and recording of the amortization of the discount rate should be reflected in restricted revenue.
QUALIFIED CHARITABLE GIFT ANNUITIES
When to Use

• Donors that desire fixed payments
• Liquid assets
• 1 or 2 life-income beneficiaries
• Donors live in a state where regulation is not prohibitive
QUALIFIED CHARITABLE GIFT ANNUITIES
State Regulation of Gift Annuities

Four Categories of State Regulation:

• Minimum Requirements: Organization must meet certain criteria, but no registration or notification is required

• Notification: Initial notification required; may include minimum requirements

• Registration: Registration and annual filings required

• Silent: state has not taken a position
QUALIFIED CHARITABLE GIFT ANNUITIES
State Regulation of Gift Annuities

Provided by the American Council on Gift Annuities - ACGA State Regulations Committee
https://www.acga-web.org/state-regulations
CHARITABLE REMAINDER TRUSTS
CHARITABLE REMAINDER TRUSTS

• Payments to one or more beneficiaries for life or term of years
• Remainder passes to charity
• Two types:
  – Charitable Remainder Annuity Trust (CRAT): donor retains an income interest that is either a fixed dollar amount or a fixed percentage (no less than 5%) of the initial fair market value of the trust
  – Charitable Remainder Unitrust (CRUT): donor retains an income interest that is a fixed percentage (no less than 5%) of the trust assets, as revalued annually
CHARITABLE REMAINDER TRUSTS

Taxation of CRUTs

- Exempt from federal income tax
- May accumulate income in excess of distribution amounts
- Sell appreciated assets without incurring capital gains tax
- Four-tier rules for tax reporting for payments to beneficiaries
  - Ordinary Income
  - Capital Gain
  - Tax-Free Income
  - Return of Principal
Donors are 65 and 63 years old
They establish a CRUT with $500,000 to provide income for life
Donors select a payout rate of 5%
Trust will be revalued each year on January 1 to determine the amount of payments
Nonprofit beneficiary serves as trustee
CHARITABLE REMAINDER UNITRUST

TRUST FUNDED WITH $500,000

5% CHARITABLE REMAINDER UNITRUST

UNITRUST PAYMENTS TO BENEFICIARIES

AT DONORS’ DEATH, REMAINDER TO CHARITY

DONORS RECEIVE INCOME TAX CHARITABLE DEDUCTION OF $162,930
CHARITABLE REMAINDER TRUSTS
Charitable Deduction

• Equal to the present value of expected future benefit to charity

• Remainder Factors determined by IRS Publications

• 7520 rate is used as the assumption for investment growth and discounting for present value

• **Charitable Deduction: $162,930**
CHARITABLE REMAINDER TRUSTS

Valuation Standards

Variables for this Example

1. Investment Returns
   – Default Assumption: 7.2%

2. Expenses
   – Default Assumption: 0.9%

3. Annual Payments to Beneficiaries
   – 5% of trust value annually

4. Term of Gift
   – 26 years

5. Discount Rate
   – 3.2% (Highest 7520 rate; could also use average of inflations rates per Consumer Price Index or industry-specific data)
CHARITABLE REMAINDER TRUSTS

Valuation Standards

$500,000 Charitable Remainder Unitrust with 5% payout rate
Donors/beneficiaries are 63 and 65 years old.

- **STEP 1: Calculate Future Value**

\[
FV = Gift\ \text{Amount}(1 + \text{Net Return} - \text{Payout Rate})^N
\]

\[
FV = 500,000(1 + .063 - .05)^{26}
\]

\[
FV = 500,000 \times 1.399
\]

**Future Value = $699,545**
CHARITABLE REMAINDER TRUSTS
Valuation Standards

$500,000 Charitable Remainder Unitrust with 5% payout rate
Donors/beneficiaries are 63 and 65 years old.

  **STEP 2: Discount for Present Value**

\[
PV = \frac{\text{Future Value}}{(1 + DR)^N}
\]

\[
PV = 699,545 / (1.032)^{26}
\]

\[
PV = 699,545 / 2.26815
\]

**Present Value = $308,420**
CHARITABLE REMAINDER TRUSTS

Valuation Standards

$500,000 Charitable Remainder Unitrust with 5% payout rate
Donors/beneficiaries are 63 and 65 years old.

| Present Value = $308,420 | Charitable Deduction = $162,930 |
CHARITABLE REMAINDER TRUSTS
Funding Assets

• Cash
• Marketable securities
• Real estate
• Other illiquid assets
CHARITABLE LEAD TRUSTS

- Gift of income interest, not remainder interest
- Charity receives income for a term of years (either a unitrust or annuity interest)
- At termination of trust, trust corpus is returned to donor or to donor’s family / other non-charitable remainder beneficiary
- Donor receives income tax or gift tax charitable deduction
CHARITABLE LEAD TRUSTS
Example

- Donor’s employer recently acquired by competitor; Donor received large “golden parachute” payout
- Donor allocated $5,000,000 to be given to children, ages 13 and 15
- Donor wishes to make a pledge to an ongoing expansion & building campaign of a nonprofit she supports
$5,000,000 CASH

6% CHARITABLE LEAD TRUST (15-YEAR TERM)

CHARITY RECEIVES ANNUAL PAYMENT OF $300,000

AT TERMINATION, CORPUS PASSES TO DONOR’S CHILDREN

DONOR RECEIVES GIFT TAX DEDUCTION OF $3,572,150
CHARITABLE LEAD TRUSTS
Gift or Income Tax Deduction

- Equal to the present value of the income stream to charity for the specified term of years
- Factors determined by IRS Publications
- 7520 rate is used as the assumption to discount future annual payments for present value
- Lowest available 7520 rate leads to highest value for charitable interest
- **Gift or Income Tax Deduction: $3,572,150**
CHARITABLE LEAD TRUSTS
Valuation Standards

$5,000,000 Non-Grantor Charitable Lead Annuity Trust with 6% payout rate

\[ PV = \sum \text{Annuity payment} \times (1 + \text{DR})^N \]

\[ PV = \sum 300,000/(1.032)^N \]
\[ PV = 300,000/1.032 + 300,000/1.032^2 + 300,000/1.032^3 \ldots \]
\[ 300,000/1.032^{14} + 300,000/1.032^{15} \]

Present Value = $3,530,117
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

• Example – Charitable Lead Trust, using the previous example
  — $5M gift to be distributed to beneficiaries at end of 15 year term
  — Organization receives 6% payout each year
• Calculate the fair value of the contribution based on the PV for
  future distributions to be received by the nonprofit as a beneficiary.
• Calculate the remainder gift as the fair value of the assets
  contributed by the donor under the agreement less the fair value
  of the benefits to be received by the nonprofit.
• How does this look when reviewing a nonprofit’s financials?
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

- Recognize contribution revenue, assets held in trust, and a liability for the remainder held for others.
- Subsequent periods, both the income earned on trust assets and recognized gains and losses should be reflected in the trust asset and liability accounts.
- Adjustments to the liability to reflect amortization of the discount and revaluations of future cash flows based on revisions of the donor’s life expectancy should be recognized as changes in the value through temporarily restricted contribution revenue.
- Whether a liability is recorded or not depends on whether the nonprofit is the Trustee of the assets held
  - If not Trustee, record Beneficial Interest at fair value of assets and reduce by payments received
  - If Trustee, record assets at full value and corresponding liability, to be reduced as payments are received.
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

• Example – Charitable Lead Trust, using the previous example, assuming that donor gifts entire value of trust to the organization
  — Value of assets donated = $5,000,000
  — 6% annual payout, assumed for an estimated 15 years
  — Interest rate of 3.2% assumed
  — Calculated value of annuity is $3,530,117

| Trust Asset | $5,000,000 |
| Liability   | $1,469,883 |
| Restricted Revenue | $3,530,117 |

How does this look if the Trustee is not the benefitting organization?
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

• Example – Charitable Lead Trust, using the previous example, assuming that donor gifts entire value of trust to the organization
  — Value of assets donated = $5,000,000
  — 6% annual payout, assumed for an estimated 15 years
  — Interest rate of 3.2% assumed
  — Calculated value of annuity is $3,530,117
  — Trust assets will be held by a third party

  Beneficial Interest In Trust $3,530,117
  Restricted Contribution Revenue $3,530,117
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

• Recognition at year two (organization is Trustee) –
  — Distributions from the Trust to the organization will decrease value of trust.
  — Change due to market increases will increase the Trust asset balance and will be shown as unrealized gains due to change in trust value.
  — Liability will be increased accordingly.

• Recognition at year two (third party is Trustee) –
  — Treatment is the same as above, but no liability to adjust
ACCOUNTING FOR SPLIT INTEREST AGREEMENTS (CONTINUED)

<table>
<thead>
<tr>
<th>Revenue, Support, and Gains</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program service fees</td>
<td>$ 12,972,526</td>
<td>$ -</td>
<td>$ 12,972,526</td>
</tr>
<tr>
<td>Exchange portion of membership dues</td>
<td>373,781</td>
<td>-</td>
<td>373,781</td>
</tr>
<tr>
<td>Gift shop sales</td>
<td>112,364</td>
<td>-</td>
<td>112,364</td>
</tr>
<tr>
<td>Less cost of goods sold</td>
<td>(59,521)</td>
<td>-</td>
<td>(59,621)</td>
</tr>
<tr>
<td>Net gift shop sales</td>
<td>52,743</td>
<td>-</td>
<td>52,743</td>
</tr>
<tr>
<td>Net investment return</td>
<td>1,131,149</td>
<td>3,412,392</td>
<td>4,543,541</td>
</tr>
<tr>
<td>Other revenue</td>
<td>101,275</td>
<td>-</td>
<td>101,275</td>
</tr>
<tr>
<td>Federal and state contracts and grants</td>
<td>256,963</td>
<td>-</td>
<td>256,963</td>
</tr>
<tr>
<td>Contributions</td>
<td>3,352,578</td>
<td>2,858,963</td>
<td>6,211,541</td>
</tr>
<tr>
<td>Donated professional services</td>
<td>23,555</td>
<td>-</td>
<td>23,555</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>36,280</td>
<td>-</td>
<td>36,280</td>
</tr>
<tr>
<td>Gross special events revenue</td>
<td>114,989</td>
<td>-</td>
<td>114,989</td>
</tr>
<tr>
<td>Less cost of direct benefits to donors</td>
<td>(12,501)</td>
<td>-</td>
<td>(12,501)</td>
</tr>
<tr>
<td>Net special events revenue</td>
<td>102,388</td>
<td>-</td>
<td>102,388</td>
</tr>
<tr>
<td>Change in value of split-interest agreements held by Save Our Charities</td>
<td>-</td>
<td>130,406</td>
<td>130,406</td>
</tr>
<tr>
<td>Distributions from and change in value of beneficial interests in assets held by others</td>
<td>145,549</td>
<td>105,404</td>
<td>251,053</td>
</tr>
<tr>
<td>Change in value of interest-rate swap</td>
<td>33,200</td>
<td>-</td>
<td>33,200</td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>728,892</td>
<td>(728,892)</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restriction - other</td>
<td>1,331,720</td>
<td>(1,331,720)</td>
<td>-</td>
</tr>
<tr>
<td>Total revenue, support, and gains</td>
<td>20,642,399</td>
<td>4,446,553</td>
<td>25,088,952</td>
</tr>
</tbody>
</table>

Expenses and Losses

<table>
<thead>
<tr>
<th>Program services expense</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory Program</td>
<td>13,340,967</td>
<td>-</td>
<td>13,340,967</td>
</tr>
<tr>
<td>Training Program</td>
<td>2,464,694</td>
<td>-</td>
<td>2,464,694</td>
</tr>
<tr>
<td>Total program expenses</td>
<td>15,805,661</td>
<td>-</td>
<td>15,805,661</td>
</tr>
</tbody>
</table>
Required disclosures (if not apparent on face of financial statements):

- Description of the general terms of the agreements
- Assets and liabilities recognized, if not separately reported
- Any limitations imposed on assets by the agreement
- Nature of assets held and related donor and legal restrictions
- The basis used for recognized assets
- The discount rates and actuarial assumptions used in reporting the assets and liabilities related to the agreement
- Contribution revenue recognized under such agreements
- Changes in the value of the split-interests recognized
- The disclosures required by the use of the “Fair Value Option” of ASC 825-10
DISCLOSURE CONSIDERATIONS

Assets Held and Liabilities Under Split-Interest Agreements

Charitable Trusts

We act as trustee for various revocable and irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to us, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace us as the beneficiary of the trust, we record the assets placed in trust at fair value, with an equal and offsetting liability until such time that we receive distributions from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. [If the
DISCLOSURE CONSIDERATIONS

We have been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, we have neither possession nor control over the assets of the trusts. At the date we receive notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.
DISCLOSURE CONSIDERATIONS

Charitable Gift Annuities

Under charitable gift annuity contracts, we receive immediate and unrestricted title to contributed assets and agree to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.
RESOURCES FOR ACCOUNTING FOR SPLIT-INTEREST GIFTS

• AICPA Nonprofit Audit and Accounting Guide, section dedicated to Beneficial Interests and Split Interest Arrangements
• AICPA whitepaper *Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities.*
BEQUESTS AND OTHER REVOCABLE COMMITMENTS
TYPES OF REVOCABLE GIFTS

- Bequests
- Other end-of-life gifts (e.g. life insurance, retirement assets, POD designations)
- Letter of intent for annual giving
- Non-binding pledge commitment (single year or multiple years)
- Interest in a revocable trust
ACCOUNTING FOR BEQUESTS AND PROMISES TO GIVE

• Wills are revocable documents
• Consider the structure of the organization prior to a gift being made or accepted:
  — i.e. Endowment gift, but the organization has no formulized endowment fund
  — Assets that are hard to execute or manage by the organization
• Receivables from a donor will be recorded when a will becomes valid
  — Fair value of the estimated gift – tax vs. financial reporting
  — Estate considerations: will it be paid out in installments or contain hard to value/manage assets?
• For pledges, consider whether the language indicates an *intent* to give rather than a *promise* to give.
  — Consideration of multi-year pledges and recognition.
SHOULD THESE GIFTS BE VALUED?

BENEFITS DURING A CAMPAIGN:
• Gives donors every option to support the organization
• Provides a way to track revocable commitments
• Helps in developing distinct goals for fundraising

BENEFITS FOR VALUING DEVELOPMENT ACTIVITIES:
• Provides a method to value fundraising efforts
• Helps organizations know how to allocate resources
REVOCABLE GIFTS

Bequest Intention

- Donor is 75 years old
- Has given regularly for the past 25 years
- Has made larger commitments to specific projects over the years
- Has served the organization in a volunteer capacity
- Donor informs you that she has included a $250,000 bequest in her will
REVOCABLE GIFTS

Valuation Standards

A 75 year-old donor makes a $250,000 bequest intention. The donor has been very involved with the organization

- **STEP 1: Calculate Present Value**

\[
PV = Gift \text{ Amount} \times (1 + \text{Discount Rate})^N
\]

\[
PV = 250,000 \times (1.032)^{12}
\]

\[
PV = 250,000 \times 1.459
\]

**Present Value = $171,310**
## BEQUEST EXPECTATION PERCENTAGES

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Use When...</th>
</tr>
</thead>
<tbody>
<tr>
<td>95%</td>
<td>The donor has a close relationship to the organization, there is a legally enforceable pledge and the estimated value of the estate is at least 20X greater than the intended gift amount</td>
</tr>
<tr>
<td>75%</td>
<td>The donor has a close relationship to the organization, the amount is specific, and estimated value of the estate is at least 20X the gift amount</td>
</tr>
<tr>
<td>50%</td>
<td>The donor has a close relationship to the organization, the amount is specific, and estimated value of the estate is at least 10X the gift amount</td>
</tr>
<tr>
<td>25%</td>
<td>The donor has a limited relationship to the organization, the amount is specific but it is impossible to estimate the value of the estate</td>
</tr>
<tr>
<td>5%</td>
<td>The donor has no gift history or documented relationship and it is impossible to estimate the value of the estate</td>
</tr>
</tbody>
</table>
A 75 year-old donor makes a $250,000 bequest intention. The donor has been very involved with the organization.

- **STEP 2: Discount for the possibility of revocation/exhaustion**

<table>
<thead>
<tr>
<th>Expectation %</th>
<th>Gift Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>$128,483</td>
</tr>
<tr>
<td>50%</td>
<td>$85,655</td>
</tr>
</tbody>
</table>

**Gift Value = PV (Expectation %)**
CONCLUSION

Gifts can come in many complex forms and structures, which vary widely in accounting treatment and legal consequences. Planning for and structure of the gift arrangements and a nonprofit’s gift acceptance policy are crucial to the success of the donor’s intent for the gift and the nonprofit’s mission.

Please let us know if you have any questions!