The 23rd Annual Planned Giving CONFERENCE

presented by the Northern California Planned Giving Council

in association with Colonial Consulting, LLC

ADMINISTRATION / FINANCE TRACK

Session 4: 3:45 pm – 5:00 pm

Topic:

Counting, Crediting and Accounting for Planned Gifts in a Campaign: Getting Development and Finance on the Same Page

Presented by:

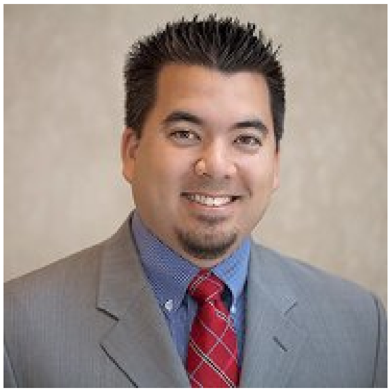
Daniel Figueredo, CPA, CGMA
Randi B. Silverman, JD

Workshop Summary:

This workshop will provide participants with:

- An overview of reporting and counting guidelines for gift planners.
- An overview of generally accepted accounting principles for planned gifts.
- A discussion on how to communicate results of your campaign to your different constituents.
- Best practices on documenting policies and procedures around planned giving. Examples of real-life situations encountered will be discussed.

Workshop Presenter



Daniel Figueredo, CPA, CGMA is chair of BPM's Nonprofit Services Group and is also a leader in the Financial Services Group, providing clients with a unique combination of experience. He serves many types of nonprofits, including organizations in the social service, private foundation, community foundation, arts and culture, advocacy/political, trade association, private school, higher education, religious, and international sectors. He works extensively with complex contributions and financing transactions, split-interest agreements, OMB Circular A-133, tax-exempt debt, expense allocations, alternative investments, UPMIFA and endowments. Daniel coordinates BPM's services to nonprofit organizations, BPM's Nonprofit Education Series, and BPM nonprofit conferences. A frequent speaker, Daniel is also a visiting lecturer at the University of San Francisco's McLaren College of Business, presents for the California Society of CPAs (CalCPA), BPM's Nonprofit Education Series and conferences, and other industry associations.

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Workshop Presenter

Randi B. Silverman, J.D., is Deputy Director of Gift Planning at UC Berkeley where she has worked for approximately 10 years. Cal's Gift Planning team, under the leadership of Kevin T. Crilly, contributed $556 million toward the $3.1 billion raised in the most recent campaign, the Campaign for Berkeley. Not included in that total is $320 million in new bequest commitments. Gift Planning also has primary responsibility for overseeing the management and administration of $145 million of life income gifts.

Prior to joining Cal, Randi practiced law in the area of estate planning, primarily at Cooley LLP (then known as Cooley Godward LLP). Early in her career as an attorney, Randi was Supervising Attorney at the Homeless Advocacy Project of the Bar Association of San Francisco.

Randi is currently serving as President of the Board of the Northern California Planned Giving Council. She received her BA in History from Cornell University and her law degree from Stanford University.

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Counting, Crediting and Accounting for Planned Gifts

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Agenda

I. Overview
II. Core Definitions
III. Counting Principles
IV. Accounting Principles
V. Crediting Principles

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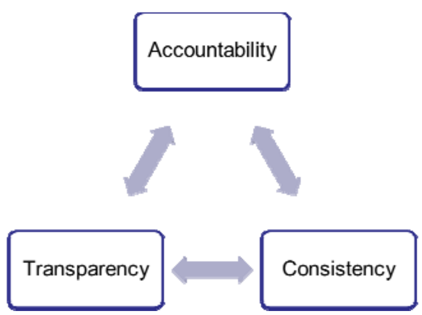
Overview

All "interest groups" in non-profit fundraising have different perspectives which influences how they see Campaigns:

- **Fundraisers –** Evaluated individually & collectively on the success of meeting campaign goals and objectives
- **Boards** – Need meaningful information to make informed decisions regarding an organization's strategy and direction
- **Finance** – Need to follow U.S. generally accepted accounting principles (GAAP)
- **Donors** – Want credit for their contribution to the organization's success as well as charitable deductions

Overview

Following established principles is key for:



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Definitions

- Counting – numeric summary of activity, results, and progress toward goal
- Crediting – institution-specific and represents the way each organization recognizes donors
- Accounting – process of keeping financial books based on set of generally accepted accounting principles
- Valuing – an assessment of the actual value of a gift to the organization
- Unrestricted
  - For fundraisers (often use "undesignated")
  - For accountants/financial officers (GAAP)

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Counting Principles

PPP: in 3 categories all at face value:

1. Outright Gifts/Pledges
2. Irrevocable Deferred Gifts
3. Revocable Gifts – Age minimums, no

CASE: in 2 & maybe 3 categories at face/discounted value :

1. Outright Gifts/Pledges
2. Irrevocable Deferred Gifts
3. Revocable Gifts (may report) – Age minimums, maybe

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Fundamental Campaign Principles (PPP* & CASE**)

1. Count only gifts and pledges (5 years) received or committed during the specified campaign period
2. Report commitments made during the quiet (i.e. advance) phase of a campaign
3. Count each gift or pledge to only one campaign
4. Cancelled pledges should be subtracted from campaign totals once they become unrealizable
5. Announce before the campaign starts the types of gifts that will be accepted, counted and reported during the campaign (7 years PPP; 8 years CASE)

Counting Principles

Reporting Outright Gifts

Gifts that are usable or become usable for institutional purposes during the "Campaign" period

- Cash and securities
- Current gifts of non-cash assets
- Pledges collectible during the campaign period
- Lead trust distributions during the campaign period
- Cash surrender value of life insurance policies
- Gift portion of bargain sales
- Retirement plan and life insurance amounts realized exceeding amounts reported in previous campaigns
- Bequests realized in excess of amounts reported in previous campaigns

Counting Principles

Reporting Irrevocable (Deferred) Gifts

Gifts committed during the "Campaign" period but usable by the organization at some point after the end of the campaign period

- Split-interests (CRTs, charitable gift annuities, pooled income funds)
- Life estates
- Lead trust distributions received after the campaign period
- Life insurance amounts for paid up death benefits
- Irrevocable testamentary pledges

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Counting Principles

Reporting Revocable Gifts

Gifts solicited and committed/pledged during the "Campaign" period but in which the donor retains the right to change the commitment and/or beneficiary

- Estate provisions (wills and living trusts)
- Charitable remainder trusts where the donor can change the beneficiary
- IRAs and other retirement plans where the beneficiary remains revocable by the donor
- Life insurance where the donor retains ownership
- Donor advised fund (DAF) assets dedicated to charity where the charity owns the DAF
- Revocable pledges

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Accounting

Overview

Differences in reported values for accounting purposes vs. fundraising, due to:

- Allowances for collectability
- Discounting long-term pledges
- Fair value differences for GAAP vs. IRS
- Accounting looks beyond the “campaign period”
- Revocable or conditional gifts are not recorded

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Bequests

- Do not record a contribution until the gift matures (i.e. donor passes away) and;
- The probate court declares the will valid
- Use the executor’s estimate of the value of the estate assets and liabilities, and re-value using the following options:
  - Revalue every period at the updated fair value
  - Factor a present value discount for the expected timing of payment

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Split-Interest Trusts

- GAAP criteria to record:
  - Irrevocable
  - Unconditional
  - Once the nonprofit is notified of the trust and has **all of the relevant information** to value it

- Trustee:
  - Nonprofit as trustee
    - Asset for trust assets
    - Liability for the present value of future cash flows to other beneficiaries
  - Third party as trustee
    - Asset for the present value of future cash flows

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Split-Interest Trusts

Initial Recognition

- Initially record a **contribution** and an **asset** at the fair value of the interest (often is based on present value calculations)
- **Possible liability** as well if nonprofit is trustee

Trust Type	3rd Party Trustee	Nonprofit as Trustee
Revocable Trust	• No recognition	• Asset for trust assets • Liability for trust assets
Charitable Lead or Remainder Trust	• Beneficial interest asset	• Asset for trust assets •Liability for amounts due to other beneficiaries
Charitable Gift Annuity	• N/A – Nonprofit should hold the assets	• Asset for trust assets •Liability for future annuity payments
Pooled Income Fund	• N/A – Nonprofit should hold the assets	• Asset for trust assets •Deferred revenue liability

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Split-Interest Trusts

Recognition During the Term of the Trust

- Revocable trusts – Record proceeds as received
- 3rd Party Trustee:
  - Record any cash or proceeds received during the trust term with an offsetting reduction in the beneficial interest asset
  - Update the present value of the beneficial interest asset for any changes in actuarial assumptions
  - Adjustments for the change in value of the split-interest is booked as support in the income statement

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Split-Interest Trusts

Recognition During the Term of the Trust

- Nonprofit as Trustee:
  - Similar adjustments as when there is a 3rd party trustee
  - Additional adjustments to update present value of liabilities to other beneficiaries
  - Netted to arrive at the change in value of the split-interest adjustment on the income statement

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Split-Interest Trusts

Recognition at Trust Termination

- Zero out any remaining assets and liabilities
- Pay out any other beneficiaries if the nonprofit is trustee
- Record a final adjustment to "change in value of split-interest" in the income statement
- Recognize contribution income from revocable trusts

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Charitable Trusts

- Different than split-interests, because **all beneficiaries** are charities
- Two types:
  - **Term** – Nonprofit receives all assets at end of term.
    - Typically valued using income approach
  - **Perpetual** – Nonprofit never receives trust assets, but has an ***irrevocable right*** to receive **all or a portion** of the income earned from trust assets in perpetuity.
    - Valued using fair value of trust assets
    - Present value techniques may be necessary if not paid on all income or no payout for a number of years.

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GAAP Fair Value vs. IRS FMV

- GAAP
  - Based on "exit price" concept, highest and best use and observable inputs
- IRS
  - Usually more of an average value and adjust for restrictions on use

- Differences in value could arise for items such as

Type of Gift	GAAP	IRS FMV
Remainder Interest with Fixed Payments	Quoted market prices for fixed-payment annuities	IRS annuity tables
Lead Interest with Variable Payments	Annuity 2000 Mortality Table (Society of Actuaries)	IRS annuity tables

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Recognition Criteria

- Recognition of outright or deferred gifts for accounting purposes must have **all** of the following characteristics:
  - Voluntary
  - Unconditional
  - Nonreciprocal (i.e. quid pro quo)
  - Irrevocable
  - Transfer is not from a commonly controlled entity

- For pledges, there should be sufficient verifiable evidence

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Net Asset Classifications – Current Standards

- Unrestricted
  - Look out for board designations
- Temporarily Restricted
  - Donor stipulations
    - Time
    - Purpose
  - Not the same as internal restrictions

- Permanently Restricted
  - Donor imposed restrictions that can't be removed by anyone other than the donor or court order (UPMIFA has an exception)

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Net Asset Classifications – Future Standards

Current GAAP	Unrestricted	Temp. Restricted	Perm. Restricted
Proposed GAAP	Without Donor Restrictions	With Donor Restrictions	

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Conditions

- Conditions relate to an ***uncertain event*** that must occur before the nonprofit has rights to assets.
  - Matching challenge grants
  - Naming rights
  - Capital projects with milestones
  - Grants with specific requirements before additional funds given

- Conditions are not restrictions.
- Don't record contributions until conditions are met.
- Record a ***refundable advance*** liability for assets received before conditions have been met.

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Crediting

Issues to consider

•Institution/Campaign specific: differences in mission, purpose of Campaign, size of organization

•Publish Counting/Crediting Guidelines – board/donor understanding; limit envelope pushing

•Non-permanent (legacy society; donor listing) v. permanent (walls; plaques; buildings) recognition

•Consider not counting significant last minute pledges to campaigns, which may give rise to issues of documentation and enforcement.

•Have appropriate board buy-in of Campaign as well as accounting/crediting issues; process for issue resolution (e.g. review conditional pledges before they are accepted) which may include board

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Crediting

Irrevocable Gifts

- Before Campaign, establish crediting guidelines (not gift acceptance policies) which may include setting minimums:
  - Ages
  - Number of beneficiaries
  - Example: It may not make sense to count a CRT from a 30-year-old with 4 or 5 multigenerational income beneficiaries
- Be clear on the methodology to calculate present value of a deferred gift
  - IRS guidelines (CASE)

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Crediting

Revocable Gifts

- Set specific goals for revocable gifts at the outset of a campaign, to avoid disproportionate results
- Verify revocable gifts: commitment in writing from donor/advisor, copy of bequest/retirement plan designation, assumed value of gift
- Periodically verify revocable gifts
- Consider age requirements for counting these gifts (CASE)
  - 50 or younger do not include in campaign totals
  - 50-69 count at discounted value
  - 70 or older count at face value

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- *Partnership for Philanthropic Planning: Guidelines for Reporting and Counting Charitable Gifts (2009)
    - Endorsed by Association of Fundraising Professionals, Association of Philanthropic Counsel, National Capital Campaign Counting Guidelines Committee.

- **Council For Advancement and Support Of Education: Reporting Standards & Management Guidelines for Educational Fundraising (4th Edition) 2009

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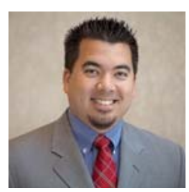
Daniel coordinates BPM's nonprofit services including the creation and presentation of seminars covering topics pertinent to boards and management of nonprofit organizations. Daniel is a regular presenter for BPM's Education Series for Nonprofits, industry associations, and conferences. He is also a visiting lecturer at the University of San Francisco's McLaren School of Management.

Daniel serves on the Board of Directors of the Smith-Kettlewell Eye Research Institute, the Finance Committee of SF Performances, the CalCPA Not-for-Profit Conference Planning Committee, the FASB Not-for-Profit Advisory Committee Resource Group, and the Northern California Planned Giving Council (NCPGC) Conference Planning Committee.



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Randi B. Silverman, JD

Randi is Deputy Director of Gift Planning at UC Berkeley where she has worked for approximately 10 years. Prior to joining Cal, Randi practiced law in the area of estate planning, primarily at Cooley in San Francisco.

During her time at Cal, Randi has had the pleasure of assisting many donors with a variety of planned and complex outright gifts funded with a wide range of assets. She is currently overseeing a new Bequest Commitment program in which, for the first time, UC Berkeley will count revocable commitments. During the recently completed campaign she worked on many Counting and Crediting issues related to planned gifts.

Prior to joining Cal, Randi practiced law in the area of estate planning, primarily at Cooley LLP (then known as Cooley Godward LLP). Early in her career as an attorney, Randi was Supervising Attorney at the Homeless Advocacy Project of the Bar Association of San Francisco.

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