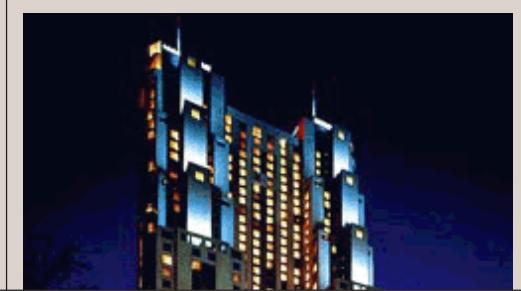


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## **Counting, Crediting, Valuing and Evaluating: Managing a Coordinated Approach to the Numbers**

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### **Web Links to PPP Standards and Guidelines and related articles**

Guidelines for Reporting and Counting Charitable Gifts

[http://www.pppnet.org/pdf/PPP\\_counting\\_guidelines\\_\(2009\).pdf](http://www.pppnet.org/pdf/PPP_counting_guidelines_(2009).pdf)

Valuation Standards for Charitable Planned Gifts

[http://www.pppnet.org/pdf/2009\\_valuation\\_standards.pdf](http://www.pppnet.org/pdf/2009_valuation_standards.pdf)

“Evaluating Gift Planner Performance: A Guide for Charity Managers,” Tom Cullinan, *The Journal of Gift Planning*, vol. 12, no. 1 (2008). Available in the library of the PPP e-community. Type Cullinan in the search field and select Libraries from the search options.

### **Definitions and Distinctions**

**Counting and Reporting:** Counting and reporting are arithmetic activities. Counting is the numeric summary of activity, results and progress toward goals. Reporting is the process of conveying to a lay audience clearly and transparently what has happened during a specific timeframe.

**Accounting:** Accounting is a process of keeping financial books based on a set of generally accepted guidelines and principles, in order to present a fair, comparable and understandable picture of an organization’s financial state at any given time.

**Valuation:** Valuation is an assessment of the actual value of an item to the person or organization that possesses it. Value may be determined by any number of methods and may reflect net present value, the future purchasing value, or even a subjective value based on non-financial considerations, such as the impact on marketing or the ability of a specific gift to attract others in its wake. The Valuation Standards for Charitable Planned Gifts define valuation as *a reflection of the present value of the ultimate purchasing power of the gift*.

**Crediting:** Crediting is institution-specific, and represents the way each organization grants recognition to its donors. It is up to each institution to set its own standards and requirements for documenting commitments. For example, some organizations require written confirmation of a bequest provision while others rely solely on a donor’s verbal commitment. Such recognition need not stem from any of the factors of counting and reporting, accounting or valuation, although a given organization may use any of these calculations as the basis of its donor recognition policies.

**Campaign:** Our use of the term “campaign” simply recognizes that charitable organizations report results in definitive time segments. Most organizations report on an annual basis and, because all gifts that are committed that year are counted, those organizations may be said to be in an annual “campaign.” Periodically, some organizations place a longer multi-year “campaign” umbrella over their fundraising activities and may report gifts committed during this longer period. Throughout the

guidelines, we use the term “reporting period” to encompass traditional multi-year campaigns and other time frames in which a nonprofit elects to report fundraising activity. When charities elect to enter multi-year campaigns, they will, as they do currently, prepare two complementary reports, one of annual activity and one for the multi-year effort.

**Distinction Among Counting, Valuing and Crediting:** Confusion of the terms and processes related to “counting,” “valuing” and “crediting” is very common. In general:

1. Counting provides a way in which all charities can record what they do, so that they can report their activity and results clearly to the public, compare results and measure against clearly articulated and unambiguous goals.
2. Counting provides a way to measure the intent of the donor, since most donors focus on the dollar amount of their commitment at the time they decide to make it, and not on the net value to the charity in an ultimate sense. All gifts, revocable and irrevocable, current and deferred, should therefore be counted.
3. Counting complements valuation, which is an institution-specific calculation and measures the value to that organization of the total gift transaction over time. These Guidelines for Reporting and Counting Charitable Gifts are compatible with the Valuation Standards for Charitable Planned Gifts and should be used as complementary tools.
4. Counting commitments and reporting them are external processes, intended for public information and comparison among organizations, while valuation is an internal process, based on the factors peculiar to each organization’s investment and financial experience.
5. Likewise, crediting a particular donor’s gift is an internal process dependent on each organization’s history, mission and policies.

### Guidelines for Reporting and Counting Charitable Gifts

Campaigns and other fundraising efforts would be better structured, clearer in their expectations, more transparent in their reporting and more truly comparable among organizations if they begin with three complementary goals:

1. **Category A: An outright goal** for gifts that are usable or will become usable for institutional purposes during the reporting period (whether one or more years).
2. **Category B: An irrevocable deferred gift goal** for gifts committed during the reporting period but usable by the organization at some point after the end of the period.
3. **Category C: A revocable deferred gift goal** for gifts solicited and committed during the reporting period but in which the donor retains the right to change the commitment and/or beneficiary.

These three categories should guide *both* the goals charitable organizations set at the beginning of their campaigns, and the reporting of results during the campaign period. In this way, organizations can measure results against aspirations, and can articulate clearly and definitively that all three types of gift commitments are crucial to achieving charitable mission. By setting clear goals in each of these categories from the beginning of a campaign, organizations can move more directly to conversations with donors about potential gifts to each of the three complementary goals. The “three-tiered” ask becomes a natural part of the campaign effort.

Charities should report progress toward these goals using **face value data**. Because these guidelines focus on reporting and not valuation, the specifics of each gift, like the age of the donor or the payout rate from a life income arrangement, are not relevant factors. Charities should report the numbers as a record of activity. So long as charities associate the reported numbers with the comparable goal or category of activity, there should be no confusion about the meaning of the data.

By establishing three goals, confusion about counting will diminish, staff and volunteers alike will have a clearer sense of their focus, and reports will not attempt to mix gifts that are intrinsically difficult to combine into a single accurately reportable number. These guidelines specifically do not offer a methodology that purports to compare commitments from different categories that are inherently different in character. Categorical goals reflect, much better than a single goal, the true nature of campaigns and annual fundraising efforts as they currently exist.

Charitable administrators should “count” toward their stated goal in each of the three categories *only new* commitments made during that reporting period. However, we recommend that charities report all charitable receipts or changes in commitments that affect the financial state of the charity, even when these are not counted toward campaign goals. The sample reporting form (page 22) provides a separate column for reporting commitments that have changed in character during a reporting period, like trusts or annuities that have matured or revocable commitments that have become irrevocable. For use in a campaign context, the sample reporting form also includes a column for reporting matured gifts that were committed and counted toward the goals of a previous campaign.

The breakdowns suggested in the sample reporting form are intended for internal reporting clarity. We recommend that *only* the summary results in the three major categories should be reported to external constituencies.

### **Sample form for Counting/Reporting**

The Sample Reporting Form provides a framework for reporting the results of fundraising activity, either in an annual context, or in a multi-year campaign. In the campaign, a series of interim reports would be prepared, either annually or on a schedule determined at the beginning of the campaign.

**Number of Gifts:** new gifts or commitments that have been received during the reporting period, as well as gifts that have changed character during the period and been moved from another category. (See page 19 for additional information.) When a gift is moved from one category to another, the number of gifts in its original category should be reduced accordingly.

**Face Value:** the value of new gifts/commitments and gifts that have changed character during the reporting period. When a gift is moved from one category to another, the value of gifts in its original category should be reduced accordingly.

**Valuation Based on the Partnership’s Valuation Standards:** The Valuation Standards for Charitable Planned Gifts provide a methodology for estimating what a future gift will be worth to charity in today’s dollars. See page 8 for more information on the distinctions between counting and valuing gifts. The Valuation Standards can be viewed in PDF format at [www.pppnet.org](http://www.pppnet.org) in the Programs -> Ethics & Standards section.

<b>FUNDRAISING RESULTS</b>					
Reporting Period:					
	<b>*Number of Gifts</b>	<b>*Face Value</b>	<b>Valuation Based on PPP Standards</b>	<b>IRS Deduction Value</b>	<b>**Matured Gifts Counted in Previous Campaigns</b>
<b>A. OUTRIGHT GIFTS</b>					
Cash					
Public Securities					
Closely Held Securities					
Real Estate					
Tangible Property					
Other Non-Cash Assets					
Grant Income from Private, Nongovernmental Sources					
Irrevocable Pledges Collected During Campaign Period					
Gift Portion of Bargain Sales					
Lead Trust Distributions					
Cash Value of Life Insurance Owned by the Charity (Net of Policy Loans)					
Realized Bequests					
Realized Charitable Remainder Trusts					
Realized Charitable Gift Annuities					

Realized Insurance Policies					
Realized Retirement Plan Assets					
<b>TOTAL OUTRIGHT GIFTS</b>					

- \* These columns include both new gifts and commitments that have changed character **during the reporting period** (e.g., matured to category A from category B or C, or moved from category C (revocable commitments) to category B (irrevocable commitments)).
- \*\* This column is used in a campaign context to show the value of realized gifts that were committed and counted toward goals in a previous campaign. Numbers in this column are never counted toward current campaign goals. If the value of the matured gift is greater than the value counted toward a previous campaign, and the increase is not attributable solely to investment performance, the excess value can be counted toward the current campaign. For example, a bequest that was nominally counted in Category C in one campaign can be counted in category A in a subsequent campaign at its full, realized value (see page 16).

	Number of Gifts	Face Value	Valuation Based on PPP Standards	IRS Deduction Value	**Matured Gifts Counted in Previous Campaigns
<b>B. IRREVOCABLE DEFERRED GIFTS</b>					
New Charitable Gift Annuities					
New Deferred Charitable Gift Annuities					
New Charitable Remainder Annuity Trusts					
New Charitable Remainder Unitrusts					

Additions to existing CRUTS, if made during current campaign or counting period					
New Pooled Income Fund Contributions					
Completed Gifts of Life Insurance					
Remainder Interest in Property with Retained Life Estate					
Irrevocable Testamentary Pledges					
Future Lead Trust Distributions					
<b>TOTAL IRREVOCABLE DEFERRED GIFTS</b>					

<b>C. REVOCABLE GIFTS</b>	<b>Number of Gifts</b>	<b>Face Value</b>	<b>Valuation Based on PPP Standards</b>	<b>IRS Deduction Value</b>
Estate Provisions				
Qualified Retirement Plan Assets				
Incomplete Gifts of Life Insurance				
New Charitable Remainder Trusts (Donor Retains Right to Change Beneficiaries)				
Additions to existing CRUTS, if made during current				

campaign or counting period				
Donor Advised Fund Contributions Due to Charity				
Life Insurance Owned by Donor				
Commitments from Living Trusts				
Other Revocable Pledges				
<b>TOTAL REVOCABLE COMMITMENTS</b>				

<b>TOTAL GIFTS AND COMMITMENTS</b>	<b>Number of Gifts</b>	<b>Face Value</b>	<b>Valuation Based on PPP Standards</b>	<b>IRS Deduction Value</b>
<b>Total Categories A, B and C</b>				

## **Valuation Standards for Charitable Planned Gifts**

The methodology for determining the value of the planned gift to the charitable organization consists of two separate computations. The purpose of the first computation is to estimate the nominal future value of the gift at the time it is expected to become available for spending by the charitable organization. The purpose of the second computation is to discount that future value to estimate what the future gift will be worth to the charity in today's dollars (i.e., today's purchasing power). The first computation provides a projection of how many dollars will be available in the future, and the second provides an estimate of what that future amount will buy, based on current prices. For example, if we know how much is required to fully fund an endowed scholarship today, the two computations can tell us whether a specific gift will be sufficient to fully fund that scholarship at the time the gift is expected to become available.

### **Computing the Expected Future Value of a Gift**

To determine the future value of a gift, we begin with the amount contributed, and then adjust that amount each year to include the expected investment return plus any expected additions and minus expected costs and payments. The more accurately these factors can be estimated, the more accurate the projected future value will be. However, the longer the time frame, the more even small deviations in the actual result relative to the projections will reduce the accuracy of the projected outcome.

Five variables affect the future value of a planned gift: investment returns, expenses, payments to income beneficiaries, expected term of the gift and additions to the gift portfolio. Where appropriate, these variables should be estimated based on a charitable organization's own historical experience. PPP provides default rates for some variables, which may be used when internal data is not available.

#### **Variable: Investment Returns**

Investment returns vary widely over time, depending upon the type of investments selected, and therefore are largely a function of the asset class mix. Stocks, bonds and cash all have different expected long-term returns. Several alternative approaches to projecting investment returns are presented below. Each organization should use the method most appropriate to its particular circumstances.

#### **Option 1. Organization-Specific Returns**

Project expected returns based on the charitable organization's own portfolio design and return expectations. This is the most accurate method for projecting future results.

- 1) Identify the individual asset classes to be used for the gift portfolio and the timeframe over which the gift is to be invested.
- 2) Equities. For periods of longer than 10 years, use the long-term expected return for each equity asset class. Because returns on equities can have significant variability over periods of less than 10 years, the best estimate of future returns is long term (e.g., 70- to 90-year averages). For periods of less than 10 years where your projection of returns for equities is different than the long-term average, substitute your projection.
- 3) For fixed income or bond asset classes, use current returns for the asset class since, unlike equities, current interest rates are the best predictors of future returns. However, if you believe current returns will not continue, use your own estimate.

- 4) To calculate the overall expected return, after you have identified the expected return for each equity and fixed income asset class, weight the expected returns by the weight of each asset class in the portfolio.

As an illustration, assume a portfolio of 60% stock, 40% bond mix. Now assume that the average return from equities is 11.2% and the return from bond class assets is 5.1%. The calculation for investment return is as follows:

$$(.6 \times .112) + (.4 \times .051) = \text{Investment Return}$$

$$.0672 + .0204 = .0876$$

### **Option 2: Organization-Specific Asset Allocation Using Default Returns**

Use your expected mix of asset classes for each portfolio, but use PPP's default long-term investment return expectations. This approach follows the methodology identified above, but provides investment return defaults for those without the history, experience and/or inclination to develop their own. Defaults are based upon historical data and are appropriate for portfolios with relatively long lives. PPP does not offer short-term equity return defaults.

### **Option 3: Default Asset Allocation Using Default Returns**

Use PPP's default asset mixes as well as long term return projections. This approach will likely result in some loss of accuracy, but for those without the experience or ability to more accurately predict the types of portfolios to be used, it provides a reasonable estimate. PPP provides assumptions for asset mixes for four types of portfolios. Use the assumptions for the portfolio type that most closely matches the expected investment mix for each gift. (This approach has been used by the American Council on Gift Annuities to determine suggested gift annuity rates since 1927. The overwhelming majority of charities that issue gift annuities choose to use rates based on the assumed rate of return on an asset allocation that ACGA considers to be prudent for investment of gift annuity funds.)

**Long term growth**, i.e., portfolios designed to balance volatility and growth (60% S&P 500 and 40% LB Int Govt/Corp Bonds).

**Conservative growth**, i.e., portfolios designed to dampen volatility but provide moderate growth (30% S&P 500 and 70% LB Int Govt/Corp Bonds).

**Fixed income portfolios**, i.e., conservative portfolios designed to minimize volatility with no equity exposure (100% LB Int Govt/Corp Bonds). Note that portfolios of 100% municipal bonds would have a lower expected return.

**Gift annuities**. For these portfolios, PPP recommends using the American Council on Gift Annuities assumed returns. ACGA provides details on these assumptions.

#### **Option 4: Single Default Rate**

Use PPP's recommended long-term growth portfolio mix and PPP's return assumptions for all future gifts. This is the least accurate projection, but also the easiest to calculate. It can be used where there is no acceptable basis for more detailed estimates, or where the charitable organization has determined that for its mix of portfolios overall it is a fair representation of the invested assets. It is strongly recommended that this approach not be used if it is likely to materially distort the expected future value of the portfolios involved.

#### **Variable: Expenses**

Expenses reduce the expected investment returns. Expenses that should be included are the costs of the investment managers, custody, trust administration and any other costs that are incurred by the portfolios in order to invest and manage investments. The expenses should be estimated based on your knowledge and expectations, or you may use the investment return defaults provided by the Partnership and the American Council on Gift Annuities, which take costs into account.

#### **Variable: Payments to Income Beneficiaries**

Payments to income beneficiaries from the planned gift may be fixed (percentage or dollar value) or variable, and may be known or unknown, depending upon the gift type. The most accurate way to determine total payments is to calculate the payment amount each year for each individual gift based upon the fixed dollar or percentage payout of the gift. Average payouts across all trusts can be used, but precision will be compromised. In cases where payments are not predictable (such as revocable trusts or estates), use an estimate, but remember that the precision of any such estimate is likely to be lower than that of a gift-by-gift estimate. Note that for portfolios that can only pay out income, such as net income trusts and pooled income funds, the income estimate for the portfolio (however it is defined for the particular case) should be substituted for the stated payout rate.

#### **Variable: Expected Term of Gift**

For gifts whose term is based on one or more lifetimes, the expected term equals the life expectancy of the beneficiary(ies) as reflected in the 1983 Basic Mortality Table. For example, a person age 60 has a life expectancy of 24 years (rounded down). This means that there is a 50% chance that the individual will live at least another 24 years. A couple ages 65 and 70 have a life expectancy of 23.1 years. Although the 1983 Mortality Tables are the PPP default, users are encouraged to rely on other tables if they are determined to be more reflective of a specific constituency or more applicable to any specific gift.

#### **Variable: Additions**

Any expected additions to the gift portfolio must be added in the years expected. Since only rarely are there situations where specific amounts are added on a fixed schedule, this adjustment should be made only where appropriate.

#### **Computing the Amount to be Received**

Once the numbers for each of these variables has been identified, the process of determining the expected future value for each portfolio is as follows:

- 1) Start with the beginning value.
- 2) Add any additions.
- 3) Subtract any payments.
- 4) Multiply the result by the investment return net of expected costs for each year until the expected date the gift will be available to the charity.

### **Computing the Present Value of the Amount to be Received**

Calculating the expected value of the gift in the future tells us how much money will be available at that time. To complete our analysis of the true value of the gift to the charity, we also need to determine what the future value is worth to the charitable organization today, when the gift is made. To do this, we will calculate the purchasing power of the future dollars relative to purchasing power today. In this way, we can estimate what the future dollars are worth relative to today's costs and compare them to any purpose.

To determine the value of a future amount in today's dollars, discount the future amount over the number of years until it is expected to be received, using the charity's expected cost rise rate as the discount rate. For example, if historically the cost of a scholarship has risen at inflation plus one percent, then the discount rate should be the general inflation projection plus one percent.

**Note:** The discount rate used for this calculation should be the rate at which the charity's costs rise. It is not the endowment return rate, or the expected growth rate on the gift investment portfolio. While these may represent more traditional approaches to discount rates, they do not provide accurate information for valuation of a gift to be received in the future. By using the cost rise rate to perform the discount calculation, we can determine what the gift proceeds will buy in terms of today's program costs.

For charitable organizations without the history or experience to calculate their own discount rates, the Partnership provides a discount factor that is based on projected inflation over long periods. Charitable organizations can use this rate as a starting point and adjust it up or down as deemed appropriate, or simply use it without adjustment. Of course, the precision of the valuation calculation diminishes along with the accuracy of the rate used. For charitable organizations wishing to determine their own discount rate, a reasonable starting point is the expected annual price rise for the charity over the life of the gift. Many charities have access to historical data that allows comparison of their expected cost rise experience relative to published indices such as the Consumer Price Index or the Higher Education Price Index. As with investment returns, the most accurate valuations will be produced by using the most precise method possible to project the expected cost rise over the period until the gift is expected to be realized.

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