The New Paradigm:

Counting Gifts and Contemporary Fundraising

Bruce E. Bigelow
Andrea M. Latchem

Many years ago, when we were still new to the business of non-profit fundraising and flushed with the excitement of bringing millions of dollars to our universities, we were confronted with the primary dilemma of the contemporary campaign: "What do these numbers really mean?" Our experiences, at two different universities, mirror those of many development professionals and especially of many who focus on planned gifts. How many have had the awkward conversation with a faculty friend who, when we enthusiastically touted the multi-million dollar results of our campaigns, asked skeptically, "So, where is the money?" Backpedaling as nimbly as we could, we tried to explain, "Well, it is not all here yet but it will be, we are sure, sometime in the future. When, we can't exactly say. And how much it will be when it becomes available remains for the future to tell. But we are still counting it in this campaign." "Right!" our faculty friends respond, with a sardonic glance that says they are right in mistrusting the figures that the Development Office puts out. Our accomplishments fade in the haze of lost credibility.

Does this mean we were wrong or that we have tried deliberately to misstate or exaggerate our results? Or that we have not done what we said we did? Not at all. Rather, it symbolizes the difficulty all development professionals have in 2005 of trying to report our results in an outdated format. We conduct our activities in creative and entrepreneurial ways. We develop relationships with our major donors that enable them to make gifts far larger than they might have thought possible. We expand and apply our technical skills in order to attract and transfer assets that go far beyond the simple gifts of cash that characterized the campaigns of two generations ago. But we still try to report our results as our predecessors did, when "cash now" was the only thing there was to report.

Fundraising campaigns, whether designed to build an umbrella over the work of several years or to encompass the efforts of a single year, are now far more complex affairs than they used to be. We seek gifts of securities, both

Abstract: The authors explain how NCPG's Guidelines for Reporting and Counting Charitable Gifts provide an approach to counting gifts that is compatible with current fundraising practices. They explain how previous methods of counting gifts within capital campaigns do not adequately meet requirements for public clarity, internal accountability and inter-organizational comparability. Syllabus for Gift Planners code: 4.04.04. Keywords: capital campaigns, face value, goals, outright gifts, irrevocable gifts, revocable gifts, valuation.

I am looking for ways to report all planned gifts in an easy to measure and practical format.

Mandy Hart, Marshall University Foundation

publicly traded and closely held; real estate of all stripes; tangible personal property—artworks and collections, antiques and books, cars and boats; oil and gas interests; patents and royalties and other intellectual property; insurance and retirement plans; and any other asset we can think of that may have value. We discuss transfer mechanisms that involve complex legal documents, trust and annuity agreements, estate planning techniques and other multi-year and multi-dimensional concerns. We work closely with our donors' financial and legal advisors to make sure that their charitable plans complement their other financial goals and to determine whether the gift plans they implement can support non-charitable goals as well.

All this complexity and all our creative talents notwithstanding, we often still report our results as a single number that is supposed to represent to an increasingly skeptical public everything we do. Even our colleagues on the development team or the individuals on our governing boards do not trust that single number, because they can't see where the money is or understand how much of it can be spent now.

So what is the answer? Is there an alternative paradigm that might acknowledge the complexity of our work without itself becoming mired in complexity? In the fall of 2003, NCPG appointed a national Task Force on Reporting and Counting Charitable Gifts, on which both of us were privileged to serve, to try to respond to this question. Comprised of 17 charitable gift planning professionals from across the country representing a wide range of non-profit and for-profit experience, the Task Force wrestled for more than a year with these questions before issuing its final report in February 2005.[1]

The essential message of the Task Force report and the conclusion of countless hours of collective conversation is that we cannot report the results of our activity under a single numerical category and still remain true to the ever-growing need for accountability, clarity and comparability in these reports. Rather, the Task Force suggests, charities should report results in three different, but complementary, categories, using face value figures:

- **An outright goal** for gifts that are usable or will become usable for institutional purposes during the "campaign" period (whether one or more years).
- **Irrevocable deferred gift goals** for gifts committed during the "campaign" period, but usable by the organization at some point after the end of the campaign period.
- **Revocable gift goals** for gifts solicited and committed or pledged during the "campaign" period, but in which the donor retains the right to change the commitment and/or beneficiary.

By establishing three goals, confusion about counting will diminish, staff and volunteers 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. Such goals also reflect, much better than a single goal, the true nature of campaigns and annual fundraising efforts as they currently exist.

In coming to these conclusions, Task Force members discussed in detail three primary concerns that affect the counting dilemma: valuation, comparability among gifts, and timing.

Volunteers and staff (including the finance office staff) really value the transparency the guidelines bring.

Marv Kelley, Northfield Mount Hermon School

Valuation

The question of "what is a gift worth" to any given nonprofit is one asked by accountants and the public at large. If we could find a way of reducing the intricacies of each gift plan to a number that somehow represented the present value of that gift to our charities, we might have a model for explaining our work in terms of real impact and real results.

NCPG has addressed the valuation issue directly. Jeff Comfort and the Task Force he directed in 2002-03 produced a well-articulated and well-argued statement about valuation, the results of which can be found in their report on the NCPG web site.[2] In essence, Jeff and his colleagues concluded that the real value of any gift plan to a particular non-profit depended in large part on what the investment returns and direct experience happened to be at that specific organization. A charitable trust that earns six percent total return over its lifetime produces a very different value for the remainderman from one earning 10 percent. Likewise, a charity that sees bequest averages of $5,000 derives quite a different current value from its bequest pool than one whose average is $50,000. While the NCPG Valuation Task Force provided a set of default investment returns and discount rates for charities whose individual records were spotty, minimal, or simply unknown, it also recommended that charities use their specific returns and trust experience as much as possible in calculating their present value results.

Thoughtful minds can and do disagree on what constitutes the proper way of calculating value. NCPG began with the principle of trying to derive the present value of a future interest—in other words, calculating what the financial benefit is likely to be for the charity at the time the gift assets actually become usable (i.e., when the trust or annuity matures or the bequest is received) and then discounting that number to the present day, using a discount rate derived from the rate at which the charity's cost of operations actually grew.

Others dispute this methodology, arguing that, imperfect as they are, the IRS tax deduction formulae are the best way of arriving at a new present value figure that is fair to all. Furthermore, some might claim, value can and should only be booked when a gift is completed. The right to revoke or to change one's mind clouds the issue of value and it would be misleading even to attempt to articulate the value of a gift that may never come.

What was certainly clear from the Counting and Reporting Task Force's discussion is that value is a matter of controversy and that there is no universally agreed-upon method for deriving value. As a result, using value as the basis for reporting results remains always suspect and difficult to defend to a broad outside audience. That is why the recommendations of the Counting and Reporting Task Force draw a clear distinction between valuation and counting.

Comparability Among Gifts

Tied intimately to, but different from, the issue of value is the issue of comparability among gifts. That is, how can charities produce a number for each gift that will tell the donors, the charity boards and the community how that gift stacks up relative to all other gifts? How should we "count" that $1 million unitrust paying six percent to a 70-year-old beneficiary relative to a $1 million outright gift of cash relative to a gift of $1 million in closely held stock that might be subject to a buy-out before the campaign is over relative to a $1 million pledge that will come in in five annual installments relative to a gift of an art collection valued at $1 million? We deal with all these gifts and more on a regular basis as development professionals.

[My organization] primarily wanted to acknowledge the consideration and intent of the donor, since most donors focus on the dollar amount of their gift at the time they decide to make it (instead of the ultimate net present value). In addition, by counting all gifts, revocable and irrevocable, current and deferred, we're able to recognize all fundraising activities, and not simply those measured by tax considerations.

Suzanne Iler, YMCA of Middle Tennessee

Past practice has often been to ignore the differences inherent in counting and reporting such gifts. That is, we have simply counted and given donors credit for the face amount or appraised value of their commitment, regardless of the nature of the asset or of the timing or even the uncertainty of the end result. This method of resolving the comparability issue has been easy, but it has also underscored the difficulty of maintaining credibility when we seek to explain what really lies behind our numbers.

Some nonprofits have also counted the face value of revocable commitments, bequest provisions in particular, but other revocable gifts as well, like those from retirement plans or insurance policies in which the donor retains ownership. Other charities have backed away from this practice, preferring not to count revocable provisions at all. Still others have put into place a formula for discounting revocable provisions based on the potential donor's age and/or relationship to the organization.

I believe that the NCPG guidelines provide a simple structure that would allow us to count and report all gifts. I plan to submit the guidelines for approval and adoption at an upcoming board meeting.

Mandy Hart, Marshall University Foundation

The result of all these mixed methodologies produces not only confusion for donors, but also a muddle of incomparability for our external and internal audiences. Because it is difficult to know a charity's "rules" without examining each in turn, observers cannot be sure that announced campaign results from any particular organization bear any meaningful relationship to those from other organizations.

I see a great benefit in using the NCPG counting guidelines as a vehicle to communicate with donors the value of their gifts, and possibly generate larger gifts, as they understand what they are actually giving.

Heather Engel, Rochester Institute of Technology

Timing

The categorized reporting recognizes that a large segment of our constituency can only give large gifts in deferred or revocable ways, and this gives our donors the recognition they deserve without confusing our other constituencies about what the results really mean.

Marv Kelley, Northfield Mount Hermon School

As illustrated by the range of gift options available to donors, charities may be able to "use" the gift over a very broad range of time. Every charity prefers cash now, and many wonderful gifts provide just that result. But we all know from collective experience that many donors can give far more, if they build into their commitment some delay in the usability of their gift. Even allowing donors to spread cash payments over a period of years often lets donors make a larger commitment than they could make if we expected everything up front. Timing is critical, for donors and charities have learned that flexibility on when and how gift commitments are fulfilled can result in much larger totals than if the charities were rigid in their expectations.

All that said, boards, presidents, and treasurers still are most interested in what new cash they have to work with. They are, therefore, reluctant to look at gifts whose usability is "down the road" with the same enthusiasm as gifts on the table now. Some institutional decision-makers have gone so far as to discourage planned gifts, believing that they reduce the gifts available today by offering the donor an "easy out" to a current payment. Many analyses have demonstrated that this either/or perspective is in fact false. Donors who have made deferred commitments (whether revocable or not) are *more* likely to make current gifts and to make larger current gifts than they did prior to their deferred commitment. While the converse is not necessarily true—large current donors may not be the best pool for deferred gifts—we know that those who have tied their commitments to the long-term prosperity of the organization are generally responsive to opportunities to enhance that prosperity along the way, not just once at the end of their lifetimes.

Because the timing of the benefit of a gift commitment is so critical to institutional planning and because planning is often done on an annual basis, some charities have simply not counted gifts whose benefits are some years distant. What has happened is that charities have reverted to the old model that values only cash available now and have marginalized, as a result, those who seek and those who make deferred commitments. Arguing that this method of counting is more honest, more straightforward, more accurate and more in line with generally accepted accounting practices, they have, in our view, closed off institutional access to a vast majority of possible gift opportunities and, in doing so, undercut the financial foundation of the future.

The New Paradigm

NCPG's recently issued counting and reporting guidelines for charitable gifts seek to address all three of the key issues discussed above. At the heart of the new approach is a philosophy that the charitable community cannot find a universally accepted way of jamming the myriad variety of gift options and methods into a single number that has any real meaning. The Task Force, therefore, stepped back from any attempt to do so and began with an assumption that gifts fall into the three complementary, but different, categories: gifts usable now; gifts irrevocably committed, but usable after the end of the reporting period; and revocable gifts that will mature at some time in the future.

In doing so, the Task Force left the issue of value to the individual charitable organization, arguing as our predecessors on the Valuation Task Force did that value rests with the individual experience of the organization itself. Reporting, however, is a very different matter. By separating value from reporting, Task Force members believe that charities can present their results in much clearer ways without having to force results into a set of formulae that may be difficult to explain or to justify without an intimate knowledge of the charity's finances.

The Task Force has also recognized that current gifts, deferred gifts and revocable gift commitments are inherently not comparable. Commitments in each category have a decided benefit and each is critical to the continuing financial health of the organization, but their impact is different and should be reported differently.

Finally, by separating these commitments, the Task Force has built into the recommendations an understanding of the timing issue. Future impact is simply announced as future impact. There is no ambiguity and no confusion with immediate impact. The quizzical looks will disappear from the faces of our faculty colleagues when we are clear about what new benefits are available when. Our reports will be sharper and more focused and our counting methods will mirror much more clearly what we actually do to attract the widest variety of gifts from our donors.

So, how will this work in practice? What will have to change? The authors suggest a three-pronged shift in the ways nonprofits handle their planning.

We are just finishing up a campaign, so won't change our system now. There is a lot of interest for the future, among both administration and finance staff. They see the value of a much clearer way to communicate results and communicate with one another and are open to looking at them (the guidelines) and using them as we move forward.

Heather Engel, Rochester Institute of Technology

The first clearly lies in the ways charities set goals. To start with, charities' senior management must be convinced of the value, for the present and future of their organizations, of adopting the three goals. Among other things, doing so will enable development officers to talk with donors comfortably about making gifts that will contribute to each goal as part of their long term commitment to the organization; will give donors and the general community confidence in how charities report and manage the gifts they receive; and will give boards and volunteers a clear picture of how the development arm of the organization is doing and what further support it may need to maintain and improve its performance.

It is a fact that, currently within development offices, goals are often set with the full recognition that gift commitments come in different packages. Planned giving offices set goals for deferred irrevocable commitments and for new revocable commitments, even as their colleagues in annual and major gifts look at goals for current gifts. Increasingly, however, even major gift staffs have recognized that they can better achieve their goals by looking as broadly as possible at the variety of asset opportunities and realizing that planned giving can be a critical tool in finding and developing those gift plans that have current benefit.

Even if the NCPG guidelines are only used for internal reporting purposes to Boards and Management, they allow the development office to paint an accurate picture of the productivity of their work.

Mandy Hart, Marshall University Foundation

These internal practices notwithstanding, many charities continue to set public goals, both for annual fundraising efforts and for multi-year campaigns, as a single number. The Task Force's recommendations simply suggest that charities adopt these internal practices for external audiences also. The differences among the three categories recommended by the Task Force are not complex and should be easy to convey to boards, to donor populations and to the institutional community, if they are adopted right from the start.

The second new practice is a corollary of the first and focuses on redefining the campaigns of the past and the results of previous years in light of the new paradigm. In other words, what would those earlier results have looked like if the results had been categorized as the new paradigm recommends? That may be a less onerous task than first appears, since many organizations may already have tracked that information to monitor their internal goals. By looking at past results in light of the new counting and reporting guidelines, charities can set a new foundation for both institutional history and institutional progress. It will be clear what has happened, what role various kinds of gifts have played in the success of the organization, and how goals for the future compare with the accomplishments of the past.

The third new practice will require changes in the internal workings of data reporting and analysis. Data management firms and data systems are key to producing the results of non-profit development activities in ways that make the most sense. We do not mean to minimize the difficulty of revising computerized reporting processes, particularly at large organizations with, perhaps, a set of sub-groups, each of which may operate semi-autonomously within a large institutional system, though it may not be as complicated a task as first appears. Still, reporting needs and desires always shift depending on the priorities of the organization, and data management systems always adapt. Bringing the data management community into the discussion in the planning stages will ensure that they are partners with the development professionals in the task of producing accurate and timely reports consistent with the new model.

A Practical Beginning

Counting and reporting guidelines were discussed by senior management, campaign volunteers and board members. All were in agreement that NCPG's standards provided the ability to report CLEARLY and EFFECTIVELY the results of fundraising activity for the YMCA of Middle Tennessee's Vision 2020 Campaign.

Suzanne Iler, YMCA of Middle Tennessee

Conversations with gift planners indicate that the new paradigm is already beginning to take hold. After recent discussions with several colleagues in nonprofits ranging from independent schools, through social service agencies, to colleges and universities, we are encouraged to find organizations not only already convinced of the value of the guidelines, but also adopting or working on adopting them at their institutions. Colleagues have described them to us as an easily measured, transparent and practical system which they believe will allow them to make their reports clearly and easily, while providing positive recognition for donors. Other positive feedback we've heard is on the value of the guidelines for staff recognition and credit.

It is too early to evaluate the results of these efforts, but we are pleased that they are underway. A year from now, we look forward to being able to gather and analyze data from those who are using the guidelines and sharing that analysis with you.

Conclusion

Shifting paradigms is never easy. Analysis of how new paradigms come to be accepted over centuries indicates that the shift comes usually when the old paradigm reaches the point of overt discontinuity with practice. In our reporting structure, particularly in the context of publicly announced campaigns, we have reached that point.

Only by recognizing the dissonance between what we do and how we report what we do can we move to a system which is not only more consistent, but also more able to tell those to whom we report what value, what impact, and what benefit we really bring to the present and the future of the charities about which we care so much.

Bruce Bigelow is a founding partner of Charitable Development Consulting in Frederick, Maryland. Until recently, he served as senior vice president at Hood College in Frederick, Maryland, where he worked for the past 14 years. Prior to that appointment, he was the associate vice president for development and, earlier, the director of planned and major gifts at Gettysburg College. Bigelow has served on the board of directors of the National Committee on Planned Giving, and is a founding member and past president of the Chesapeake Planned Giving Council in Baltimore. He is also a member of the CANARAS Group. Before entering the development field in 1983, Bigelow taught Eastern European history for eight years at Denison University. He also served for four years as the liaison between the research and program offices of the National Highway Traffic Safety Administration in Washington, D.C.

Andrea M. Latchem was appointed as senior philanthropy adviser at Syracuse University, Syracuse, New York, in 2004. Previously the executive director of development for gift and estate planning for Syracuse University, she has more than 20 years of experience in planned giving, including positions with the Salvation Army and two former positions with Syracuse University. She is secretary and chair-elect of the National Committee on Planned Giving. A member of both CANARAS and the Planned Giving Council of Upstate New York, she has served both councils as president. A board member of the United Way of Central New York, she is chairing its Planned Giving Task Force; she is also a member of the Advisory Board of the Skaneateles Festival, an internationally known chamber music festival in Skaneateles, New York, and an associate member of the Estate Planning Council of Central New York. A native of England, Ms. Latchem came to this country in 1968, after receiving a bachelor's degree from the University of London.

[1] NCPG Guidelines for Reporting and Counting Charitable Gifts are on the web in PDF format at www.ncpg.org/ethics_standards/NCPG%20counting%20guidelines.pdf

[2] NCPG Valuation Standards for Charitable Planned Gifts are on the web in PDF format at www.ncpg.org/ethics_standards/Valuation%20Standards%20-%20Final.pdf