The Shephard Group

The Five Definitions of Gift Valuation

What to Count, Where, When, and Why

R. Daniel Shephard, CFRE

The opinions among colleagues at most not-for-profits regarding the value of a multi-year pledge, of a will bequest, of a charitable remainder trust from a 59 year old sometimes seem as varied as are the number of professionals engaged in those conversations.

All too often when the question "What gets counted?" comes up during a staff meeting the focus is on a single definition of gift valuation, excluding the ripple effect onto closely-related purposes for valuing the gift. For example, if the conversation is about the value of a charitable remainder trust from a 59 year-old for your five year comprehensive campaign, are you cross-referencing what dollar value will be assigned that gift for donor recognition, and for fundraiser attribution?

I once conducted a survey of 20 colleges and universities, large and small, public and private, regarding what value they put on deferred gifts based on donor's age. The policies were all over the place, which only reinforced my thought that there isn't an applicable rule, only what seems to suit each institution at a given time.

One typical source of confusion in gift valuation is to believe that one decision must be applied to every valuation purpose – that the decision to count that charitable remainder trust toward the campaign goal, whether at face value or a discounted present value, must also apply to the value entered into the accounting system. Generally Accepted Accounting Principles already govern the value that should be counted by the bookkeeper, while your institutional policy on campaign value is entirely separate. This is a critical distinction as you consider your organization's pertinent policies for gift valuation.

Some colleagues will point to the confusion invited when the donor asks about how much to claim as a deductible charitable gift on his income tax return (See Table A, Col 1). That information is provided the donor when the gift is documented and is clearly separate from campaign valuation or donor acknowledgement policy.

One valuation policy that has long puzzled me is how a five year pledge is valued for campaign counting purposes (see Table A, Col 4). If the donor signed and dated the pledge form committing to the entire amount in year three of the campaign but the last two installments will only be collected post-campaign, why count only the first three years of the pledge toward the campaign goal? This isn't my question – it's the question that donor is asking.

The valuation purpose most often overlooked is that of Fundraiser Attribution: the value of the gift for that fundraiser's performance goal (See Table A, Col. 5). This is again a matter of internal policy, but I suggest that your policy be one that encourages each fundraising professional to pursue every meaningful gift. I once worked with a colleague who commented to me one day over lunch that he had recently met an alumna who informed him that there was a bequest to our college in her estate plan. Sadly, he hadn't done anything about it, including informing the planned giving office, because there was no incentive in his performance metrics to take the time. He had forgotten the prospect's name, and the gift was never documented or counted.

Are we, when making policy, asking what works best from every perspective? What's the reason for denying the 59 year old full donor recognition for his $100,000 deferred gift just because of his age? If your gift entry for accounting is consistent with GAAP, then where's the issue? Just because you're capable of calculating the discounted present value, what's to say you're required to use that amount when reporting on your fundraising goals

(See Table A, Col 4)? And, while we're at it, why wait for your next campaign to review your policies, or to alter your policies once your campaign ends? If you have a sound policy in place it ought to be sound whether or not you're in a campaign.

Fortunately, two of the professional organizations that address such issues for our profession –NACGP and CASE – have each issued recommendations regarding how gifts (especially deferred gifts) should be valued, with explanations for their opinions. Each organization acknowledges that federal tax law and GAAP already set appropriate rules for tax deductions and for gift entry in the accounting system (See Table A, Columns 1 and 2). Each has noted the history of variety in policy for the other three purposes (Table A, Columns 3, 4, & 5) of gift valuation. Their observations are largely donor-centered, which I find the most important argument to consider their advice. If the 59 year old has transferred $100,000 into a charitable remainder trust, be assured he feels he has made a $100,000 gift. Why not acknowledge him in your donor recognition program (See Col 4) for this level of generosity?

And why not acknowledge the gift officer who secured such a significant gift? Why not incentivize your fundraising staff to pursue all the gifts that their prospective donors are capable of, and interested in, offering?

The best thing that NACGP and CASE did in their recommendations was to clarify how gifts can be reported publicly. Imagine this scenario. It's halftime at the Homecoming game and the President stands at midfield with the chairman of the 50th year reunion class, who has in his hand one of those oversized checks. The PA announcer reports "We are grateful to announce that the Class of 1959 has completed their 50th reunion gift campaign with the following results: $2,495,000 in outright gifts and multi-year pledges, $1,487,000 in irrevocable deferred gifts, and another $1,349,000 in revocable deferred gifts, for a grand total gift to the college of $5,331,000 for their 50th reunion."

Nothing is falsified or distorted. In fact, the detail of disclosure is both honest and motivating to other prospects sitting in the stands, especially next year's 50th reunion class. Further, it educates other prospective donors on the various ways they can choose to support your organization. See Table B for a simplified version you can adapt to how you can report results based on your gift valuation policies.

Then imagine, at the annual ceremony recognizing lifetime giving, ten members of that 50th reunion class being inducted into one of your major donor societies, along with that 59 year old donor of the $100,000 charitable remainder trust. In fact, he gets inducted into both the appropriate lifetime giving society AND the legacy society. Do you suppose he might be motivated to give again in the future?

Aside from IRS regulations for deductibility and GAAP for your accounting system, how you value gifts is simply a matter of your choice, your policy. I encourage you to make policy that motivates your donors, and your fundraising professionals, to do their best.

Gift Valuation Consistent With NACGP and CASE Standards

PURPOSE OF VALUATION TYPE OF GIFT	**1.**The valuation of gift property for purposes of **federal and/or state government tax laws** and regulations. *(Donor's responsibility)* **COUNT AT**	**2.**The valuation of gift property for purposes of the **charity's financial and accounting records** *(in accordance with GAAP).* **COUNT AT**	**3.**The valuation of gift property for purposes of **gift credit and donor recognition.** The specific policies of the (appropriate office) govern the valuation of gift property. **COUNT AT**	**4.**The valuation of gift property for purposes of counting gift value relative to the charity's **fund raising goals**, whether on a fiscal year basis and/or tied to any specific fund raising campaign effort. **COUNT AT**	**5.**The valuation of gift property for purposes of **attributing gifts to fund raising staff** who secured them. **COUNT AT**
CASH	Face value	Face value	Face value	Face value	Face value
PLEDGES (incl living lead trust)	Face value if documented	Face value if documented	Face value if documented	Face value if documented	Face value if documented
MARKETABLE SECURITIES	Appraised face value	Appraised face value	Appraised face value	Appraised face value	Appraised face value
CLOSELY HELD SECURITIES	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value
REAL PROPERTY	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value
TANGIBLE PERSONAL PROPERTY	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value	Appraised Face value
GIFTS IN KIND	Appraised face value	Appraised face value	Appraised face value	Appraised face value	Appraised face value
RETAINED LIFE ESTATE	Appraised Face value	Appraised Face value	Appraised face value, ref Table B, Col 2	Appraised face value, ref Table B, Col 2	Appraised face value, ref Table B, Col 2
IRREVOCABLE DEFERRED GIFTS (irrevocable charitable remainder trust, gift annuity, etc.)	Present value	Present value	Appraised face value ref Table B, Col 2 for lifetime giving society, also recognize through deferred donors society	Appraised face value ref Table B, Col 2	Appraised face value ref Table B, Col 2
REVOCABLE DEFERRED GIFTS (bequest, life insurance beneficiary, retirement plan beneficiary, revocable charitable remainder trust, testamentary lead trust, etc)	No value	No value	Appraised face value ref Table B, COL 3, and acknowledge donor through deferred donors society (no lifetime gift value for revocable gifts)	Appraised face value ref Table B, COL 3	Appraised face value ref Table B, COL 3

TABLE B
REPORTING FUNDRAISING RESULTS

Reporting to donors, your board, etc

Use this three-column reporting format to separate the three distinct gift types

COL 1 **OUTRIGHT** (Gifts and Pledges Not to exceed ____ years)	**COL 2** **IRREVOCABLE DEFERRED** (irrevocable life income gifts, retained life estates, etc)	**COL 3** **REVOCABLE DEFERRED** (bequests, revocable life income gifts, beneficiary designations of life insurance and deferred compensation plans, etc)
Count at Appraised face value of the gift or pledge (Do not double count pledge payments as they arrive.)	Count all at appraised face value when documented, regardless of donor's age, but keep segregated in this column. (Do not double count realized gifts.)	Count all at face value when documented, regardless of donor's age, but keep segregated in this column. (Do not double count realized gifts.)