

GIFT REPORTING STANDARDS

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01. PRINCIPLES OF GIFT REPORTING

01.01. Types of Gifts

Gifts to Texas State University-San Marcos (Texas State) include, but are not limited to, gifts of cash, marketable securities, closely held stock, real property, tangible and intangible personal property, deferred life income plan and charitable lead trust gifts, remainder interests in residences and farms, life insurance, bequest and other testamentary gift intentions, gifts-in-kind, and private grants.

01.02 Reporting of Gifts

Outright gifts should be reported only when assets are transferred irrevocably to the institution. Deferred gifts should be reported only when assets are transferred or, in cases where no assets are transferred, when a legally binding deferred pledge agreement or other irrevocable document is consummated with the institution.

01.03 Pledges

- A. Oral Pledges. Oral pledges should not be reported. On the rare occasion when special circumstances may warrant making an exception, the Major Gifts Officer should write the individual making an oral pledge to document the commitment, place a copy of the written commitment in the donor's file, and gain specific written approval from the Assistant Vice President for University Advancement for Development.
- B. Pledges of Cash. Pledges of cash should be written and should commit to a specific dollar amount that will be paid according to a fixed time schedule. Only upon permission provided in writing by the President should a pledge payment period exceed five years.
- C. Testamentary Pledges and Deferred Pledge Agreements. Reference Sections 02.09 and 02.10 of this document.

2.0 COUNTING AND CREDITING GUIDELINES

The succeeding policies concerning the valuation of gifts closely follow the CASE Standards. In regards to valuation of assets transferred to Texas State,

Texas State will adhere to current Internal Revenue Service (IRS) regulations for the protection of our donors. As IRS regulations change, our gift valuation policies may also require modification.

02.01 Pledges of Cash

Pledges of cash should be written and should commit to a specific dollar amount that will be paid according to a fixed time schedule. Only upon permission provided in writing by the President should a pledge payment period exceed five years.

02.02 Cash/Checks

Cash and/or checks will be reported a full value as of the date received.

02.03 Marketable Securities

Marketable (publicly traded) securities will be counted at the average of the high and low quoted selling prices on the date the donor relinquished dominion and control of the assets in favor of Texas State (or the average of the bid/ask in certain securities). When dominion and control has been relinquished by a donor depends upon the method of delivery of the securities to Texas State. For example, stock electronically transferred in concert with the Alumni and Development records is valued as of the date of transfer. Stock in the name of the donor, which has been mailed to Texas State, is valued as of the latest date of postmark of either the stock certificate or signature name of Texas State on the books of the corporation is valued as of the date such stock is so registered. Stock hand delivered to Texas State by the donor in negotiable form is valued on the date received by Texas State.

02.04 Closely Held Stock

Gifts of closely held stock, approved by the GPC and exceeding \$10,000 in value, will be reported at the fair market value placed on them by a qualified independent appraiser as required by the IRS for valuing gifts of non-publicly traded stock. Gifts of \$10,000 or less may be counted at the value determined by a qualified independent appraiser (including an independent CPA who maintains the books for a closely held corporation) or at the per-share cash purchase price of the most recent bona fide transaction involving such stock (which must have occurred within the 12 months preceding such gift) or at the price such stock is redeemed.

02.05 Gifts of Property

Gifts of real and personal property, approved by the GPC, for which donors qualify for a charitable deduction, will be counted at their full market value as substantiated by a qualified appraisal and/or IRS Form 8283 by the donor. Gifts-in-kind, such as equipment and software, will be counted at their educational discount value, which, for purposes of these standards of reporting, will be deemed to be fair market value. When no educational discount value can be determined, especially in the case of donated software, a value of 50% of retail will be deemed fair market value.

02.06 Irrevocable Life Income Gifts: Charitable Remainder Trusts, Pooled Income Funds, Gifts Annuities (Current and Deferred).

Irrevocable life income gifts to Texas State having a remainder value equal to or greater than 25% according to the IRS tables will be counted at full market value.

Example: A donor makes a gift of \$100,000 to a charitable remainder unitrust. Texas State's interest is calculated under the IRS table to be \$50,000, or 50%. The donor's gift is thus counted at its fair market value of \$100,000.

Current university policies require that there be at least a 25% charitable remainder value in any trust for which Texas State serves as trustee. Those arrangements having a remainder less than 25% according to the IRS tables will be discounted 20% or each 5% or portion thereof under 25%. Current university policies require that Texas State have at least a 25% minimum remainder value in any trust for which Texas State will serve as trustee. Generally, the lower the value of the remainder interest percentage, the more remote is Texas State's interest.

Example: A donor makes a gift of \$100,000 to a charitable remainder unitrust. Texas State's remainder interest is calculated under the IRS tables to be \$23,000, or 23%. Since Texas State's remainder interest is between 20% and 25%, the donor receives credit for \$80,000, representing a discount of 20% from the gift's full fair market value. If Texas State's interest was calculated to be worth \$12,000, or 12%, the donor would receive credit of \$40,000, applying a 60% discount to the full fair value.

Credit will be given for charitable remainder trusts administered outside of Texas State, provided Texas State's interest in such trust is irrevocable and verifiable. With respect to all life income arrangements, whether or not administered by Texas State, credit will be given only to the extent Texas State's remainder interest is irrevocable.

Example: Texas State is presently the sole charitable beneficiary of an otherwise qualifying charitable remainder trust but the donor has given the trustee the right to divert 50% of the principal to other charities. The donor will thus receive credit for only 50% of the full fair market value of the trust. If the trustee can divert only 25%, however, the donor gets credit for 75%.

02.07 Remainder Interests in a Residence or Farm

A gift of a remainder interest in a residence or farm will be counted at full fair market value of the residence or farm. An appropriate discount will be applied where the remainder value is under 25% according to the IRS tables in accordance with the provisions relating to Irrevocable Life Income Gifts.

02.08 Irrevocable Charitable Lead Trusts

Credit will only be given to the extent a charitable lead trust is verifiable and Texas State's interest therein is irrevocable.

- A. Irrevocable Charitable Lead Annuity Trust (CLAT). The aggregate amount of the anticipated annuity payments to be received over the first five years of the trust will be counted at full value. Anticipated annuity payments to be received in year six and beyond will be counted at their discounted present value.

Example: A donor establishes a \$100,000 CLAT having a seven year term and a 10% payout rate. The annual payments to Texas State will be \$100,000 for a total of \$700,000 payable over the term of the trust. The donor will receive credit for the first five years of payments (\$500,000) at full value. For years six and seven, the donor will receive credit equal to the discounted present value of the remaining income stream based on a then current Applicable Federal Rate (AFR) of 7.6%, which is \$124,330. The donor thus received a total credit of \$623,330.

- B. Irrevocable Charitable Lead Unitrust (CLUT). The aggregate amount of the anticipated unitrust payments to be received over the first five years of the trust, after applying the AFR for the month the trust was established as an anticipated income return, will be credited at full value. Anticipated annuity payments to be received in year six and beyond shall be credited at their discounted present value.

Example: a donor establishes a \$1,000,000 CLUT having a seven year term and a 10% payout rate. The growth rate of the trust principal is based on the then current AFR rate, 7.6% for purposes

of this example. Based on the above assumptions, the estimated annual payments from the trust over the five year period are projects to be: (1) \$100,000; (2) \$97,600; (3) \$95,258; (4) \$92,972; and (5) \$90,740 – or a total of \$476,570 over the five year period. The discounted present value of the income stream to be received in years six and seven based on the then current AFR is computed as \$108,827. The donor thus receives total credit of \$585,397.

02.09 Realized Bequests and Other Testamentary Distributions

A. Bequests and Revocable Testamentary Gifts

All amounts received by Texas State by bequest or pursuant to other revocable testamentary plans will be credited at the value received.

B. Amounts received from Life Income Plans.

Amounts received from life income plans will be counted at the value received.

02.10 Testamentary Intentions

Confirmed provisions for Texas State in wills, revocable trusts or other revocable instruments (including, but not limited to, individual retirement accounts, qualified plan and life insurance beneficiary designations) and revocable beneficiary designations of Texas State in other wise irrevocable charitable remainder trusts by donors age 65 or older will be counted at their discounted present value. To be counted, such expectancies must be in the form of a specified amount, or a percentage of the donor's estate or relevant asset pool, as appropriate, based on a credible estimate of the future value of such estate or asset pool at the time the commitment is made. In the case of individual retirement account, qualified plan or other similar arrangement where the pool of assets will be depleted over time by mandatory distributions, the donor's will must contain a provision to the effect that any shortfall in the anticipated amount passing to Texas State be made up from the donor's estate. For verification purposes, at a minimum, there must be written acknowledgment of the commitment by the donor or the donor's attorney with a copy of the relevant legal provisions. The execution by the donor of a charitable/Deferred Pledge Agreement would be a preferred method of confirming the donor's commitment. The discounted present valued of veritable expectancies will be calculated as follows:

2.1 Specific Dollar Gifts

A gift of a specific dollar amount will be discounted to its present value after giving consideration to the full range of circumstances preceding Texas State's receipt of the gift. Generally, the present value of the expectancy will be determined taking into account the testator's life expectancy to the AFR for the month the commitment is made.

Example: a 65 year old donor leaves \$100,000 to Texas State under his Will. Based on his current life expectancy of 20 years and the then current AFR of 7.6%, the expectancy has a present value of \$23,108, which will be credited.

2.2 Percentage Gift

The expected value of the donor's estate or principal pool at the donor's death must first be determined. Once a credible estimate of the future value of the asset pool has been determined, the amount going to Texas State can be quantified and the discounted present value calculated.

Example: A 65 year old donor leaves 25% of his estate to Texas State. The donor is the sole owner of a closely held software business currently growing at a 35% annual rate. The donor, whose personal estate is now approximately \$5,000,000, anticipates that his estate will appreciate an average 15% annually over his 20 year life expectancy. Applying a 15% growth factor, the donor's estate is estimated to be worth \$81,832,687, and Texas State's share \$20,458,172, at his death. Based on the donor's 20 year life expectancy and the current AFR of 7.6%, the discounted present value of the donor's bequest is \$4,727,390.

2.3 Miscellaneous

Considering the many sophisticated estate planning techniques now being employed, it would not be surprising to encounter a situation where a donor has created, under his Will, a testamentary charitable trust or charitable lead trust under which Texas State is a beneficiary. Each such situation will require individual scrutiny. Some situations may be properly accorded credit while others may not.

Example: A 75 year old donor directs that \$500,000 be paid at his death to a 5% charitable remainder unitrust

which will pay income to his 72 year old spouse for her life and then be distributed to Texas State. Based on the donor's life expectancy of 12.5 years and the current AFR of 7.6%, the present value of the amount going to fund the charitable trust is \$200,132. Applying the then life expectancy of the donor's spouse and the current AFR, Texas State's remainder interest is valued at \$150,499 according to the IRS tables.

02.11 Life Insurance

To count gifts of life insurance, Texas State must be the owner and irrevocable beneficiary of the policies.

A. Paid-up Life Insurance Policies

Paid-up life insurance policies will be counted at the cash surrender value, and reported as a current outright gift.

B. Existing Policies Not Fully Paid-Up

A life insurance policy that is not fully paid-up on the date of contribution which is given to Texas State will be counted at the existing cash surrender value and recorded as an outright gift. A pledge of continuing premium payments will be counted at the aggregate of the remaining projected premiums over said five-year pledge period at full value.

C. New Policies

A pledge of premium payments for a new policy over a five-year pledge period will be counted at the aggregate of the projected premiums over said five-year pledge period at full value.

D. Wholly Charitable Trusts Administered Outside Texas State

In the case of a wholly charitable trust administered outside Texas State, the fair market value of the trust assets, or such portion thereof, representing Texas State's irrevocable income interest therein will be credited as a current gift in the year in which the trust is established. All income from the trust will be treated as endowment income.

E. Non-Government Grants and Contracts

Grant income from private, non-government sources (a.k.a. Private Research Support) will be reported; all contract revenue will be excluded. The difference between a private grant and contract is judged on the basis of the intention of the awarding agency and the legal obligation incurred by Texas State in accepting the award. A grant, like a gift, is bestowed voluntarily and without expectation of any tangible benefit in return. It is donatives in nature. A contract carries an explicit “quid pro quo” relationship between the source and the institution.

03. REVIEWERS OF THIS PPS

Reviewers of this PPS include the following:

Position

Director of Donor Relations – Senior Reviewer

Assistant Vice President, University Advancement for Development

Vice President for University Advancement

04. CERTIFICATION STATEMENT

This PPS has been approved by the following individuals in their official capacities, and represents Texas State policy and procedure from the date of this document until superseded.

Assistant Vice President, University Advancement for Development

Vice President for University Advancement