

[admin](#) - Mon, 6/11/2012 - 00:00

Many of our clients end their fiscal years on June 30. If you're one of them, you may have been requested to provide a report showing the liabilities associated with your organization's active planned gifts. If not, you may be, because Financial Accounting Standards Board (FASB) guidelines require all charities to include these liabilities in their annual financial statements. FASB Liability Calculations - The Background Effective December 1995, the FASB of the Financial Accounting Foundation, which sets standards for accounting practices in the United States, issued FASB Statements 116 and 117. These statements address accounting issues in non-profit organizations, including the accounting for planned gifts. FASB guidelines are not regulations imposed by federal or state laws, but rather are meant to provide uniform methods for preparing financial information. FASB guidelines are applied by each organization's auditors in preparing fiscal year-end financial statements. By facilitating uniformity of accounting procedures and financial statements across non-profits, Statements 116/117 allow the fiscal standing of a non-profit organization to be evaluated clearly and to be compared easily to other non-profit organizations. One aspect of accounting for planned gifts described in Statements 116/117 is the computation of the liability associated with each planned gift. This article addresses the annual computation of liabilities for planned gifts and the booking of accounting entries. These duties span the planned giving and accounting areas, often with the planned giving officer providing periodic reports of payments and a gift liabilities report at the end of each fiscal year. Payment reports are fairly straightforward, but calculation of annual liabilities can be tricky. (PG Calc software can make both tasks easy.) Computing a report of liabilities A liability is the amount of money needed to cover a payment obligation. For each gift, the liability is based on the annual payment, the probability of making each payment (mortality), and the assumed return on invested money (interest rate). A gift's liability is also affected slightly by the payment frequency and payment schedule. An initial liability is established as of the date of gift. IRS regulations establish the initial liability for a planned gift on the gift date and this liability is often used as the initial liability booked (an explanation of this calculation can be found in IRS Publications 1457 and 1458). Liabilities are then recomputed annually for all gifts as of the end of the organization's fiscal year. Because FASB 116/117 provides only guidelines rather than exact procedures, there is room for interpretation when it comes to computing liabilities. Therefore, the charity's auditors must provide concrete direction about interest and mortality

assumptions. For consistency, most charities choose to perform these calculations using the same mortality table (2000CM) specified by the IRS for determining the initial liability. The choice of interest rate generally falls into one of two options. The most common application is to use a fixed rate for all gifts. The other is to use, for each gift, the IRS discount rate initially associated with that gift to compute its charitable deduction. For fixed-payment gifts (gift annuities and remainder annuity trusts), the liability is a function of the fixed payment amount. For variable payment gifts (pooled income funds and remainder unitrusts), the liability is based on the market value of the gift as of the end of the fiscal year. This means that charities that have pooled income funds or remainder unitrust gifts need to update unit values and market values as of their fiscal year-end in advance of running FASB calculations.

Accounting Entries - Charitable Gift Annuity example

Accounting practices vary, and depending on the methodology used, accounting entries will be made on an individual gift basis or in an aggregate fashion. In either case, entries are made for new gifts, for payments, to adjust liabilities, and for terminations. A report that details the individual payments and individual liabilities needs to be provided to the charity's auditors or accountants. Upon receipt of the gift, the charitable remainder value (the deduction) is booked as a contribution and the value of the income stream is booked as a liability. An offsetting entry for the entire gift amount is recorded to 'cash'. Each time a payment is made, the liability is reduced by the payment amount and cash is credited. Once per year, a new liability is computed and a change (either positive or negative) is made to the existing liability to bring it into line with the newly-computed one. When this adjustment is made, an offsetting entry is recorded as a "change in split interest". Upon termination of the gift, the liability is credited so that it equals 0 and the change in value of split interest is debited with an equivalent amount. The fund is then credited to account for the gift's full market value, and finally that amount is transferred to the ultimate designation.

Step-by-step example of booking a charitable gift annuity on an individual basis:

1. A \$10,000 gift is received on 12/31/2001. \$10,000 is debited as cash, the charitable deduction of \$3,954 is credited as a contribution and the value of the annuity stream (the annuitant's "investment in contract") of \$6,046 is credited as a liability.
2. A payment of \$200 is made on 3/31/2002. The liability is debited by \$200 and cash is credited by \$200.
3. A payment of \$200 is made on 6/30/2002. The liability is debited by \$200 and cash is credited by \$200. The booked liability is now \$5,646.
4. The fiscal year ends on 6/30/2002, at which point a new liability of \$6,051 is computed. The existing liability is credited with \$405. This adjustment makes the liability accurate in light of the beneficiary(ies) current actuarial ages. An offsetting

debit of \$405 is made to the change in split interest. 5. (6, 7, and 8) Payments are made on 9/30/2002, 12/31/2002, 3/31/2003, and 6/30/2003. Each time, the liability is debited by \$200 and cash is credited by \$200. At the end of this process, the booked liability is \$5,251. 6. The fiscal year ends on 6/30/2003, at which point a new liability of \$5,835 is computed. The existing liability is credited with \$584. This adjustment makes the liability accurate in light of the beneficiary(ies) current actuarial ages. An offsetting debit of \$584 is made to the change in split interest. 7. The gift terminates on 9/1/2003. The current liability of \$5,835 is credited by \$5,835 to bring the liability to \$0. The change in split interest is debited by \$5,835. 8. The fund is then credited with the difference between the gift's current market value and the original contribution value. 9. Finally, the fund is debited by the gift's market value and the ultimate designation is credited by the gift's market value. How PG Calc's software can help you: If you follow IRS methods for computing liabilities, you can use PG Calc's Planned Giving Manager (PGM) planned gift calculations and proposals software, to compute the liability for any standard planned gift. The software enables organizations to compute liabilities one at a time. You will find full details on how to compute FASB liabilities this way in PGM's On-line Help Index under FASB - Computing liabilities in PGM. GiftWrap, PG Calc's gift administration software, lets you run a large group of FASB liabilities at one time with just the touch of a button.

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