

BEFORE YOU SAY NO

CONSIDERATIONS FOR ACCEPTING GIFTS OF ILLIQUID ASSETS



Presented by

KATHY SAITAS, REED COLLEGE

ZACH HULL, PRESIDENT, X GALLERY ART

JENNIFER VIVIANO, MANAGING DIRECTOR, X GALLERY ART

- More than half of all US wealth is held in illiquid assets, yet a majority of charitable gifts are made from financial assets.
- Understanding when it makes sense for your institution to accept illiquid gifts can open up often lucrative and diverse funding sources.
- Are you in a position to accept gifts of real or tangible personal property?
- Should you be?



WHAT IS AN ILLIQUID ASSET?

- Assets that cannot be quickly or easily converted into cash for their fair market value
 - Non-cash, non-publicly traded stock
- Typically includes
 - Real estate
 - Artwork, collectibles
 - Musical instruments
 - Privately-held shares
 - 401K accounts for pre-retirement individuals

VALUE — THE REASON TO SAY YES.

**ORGANIZATIONAL
VALUE** — The gift furthers
your institutional mission

MONETARY VALUE — The
gift can be liquidated and the
funds used to benefit your
organization

SOFT VALUE — The gift
serves a public relations,
marketing, or internal
stakeholder value



RISK — THE REASON TO SAY NO.

MONETARY RISK

Not marketable (some works of art)

Carrying costs (condos, art)

Environmental risk (Ross Island)

Administrative burden (some mineral rights)

REPUTATIONAL RISK

Environmental risk

Donor may have acquired gift in an objectional manner (Sackler)

Object of Antiquity without provenance (Unesco)

Poses risk unique to your organization (real estate in Eastmoreland)

Raises other ethical issues (see attached)

GETTING TO YES (OR NO).

- Formalize a policy and guidelines for gift acceptance (see attached)
- Formalize process for gift acceptance (see attached)
- Identify decisionmakers: Typically, a Gift Acceptance Committee
- Conduct due diligence to inform decisionmakers
 - Develop a cadre of advisors in different areas (real estate brokers, appraisers, pawn brokers, environmental assessment firms, art consultants)
- Cost benefit analysis
- Document decision and rationale

WOULD YOU SAY YES TO THESE PROPOSED GIFTS?

- Real Estate
 - A commercial warehouse
 - A strip mall
 - Residential rental property
 - Vacation homes
 - Condominiums
 - Burial Plots
- Intellectual Property
 - Royalty rights
 - Patents
- Privately held shares
 - 1,000 shares of a Finnish waste management company
 - 47,505 shares of a privately held nude mouse company
- Crops, Minerals
 - Timberland
 - Orange groves
 - Silo full of wheat
 - Oil and Gas interests

COMMON, BUT SPECIAL CASES: GIFTS OF ARTWORK

- Donor Status: Investor, Collector, Artist, or Dealer?
- Related Use Rules: Use status impacts tax deduction for donor
- Holding Period: minimum of three years if related use claimed
- Qualified Appraisal: gifts of \$5000 or greater, donor must obtain
- Tax deduction and Substantiation
- Use of a Consultant

[BTW: GIFTS DECLINED!]

- A rural '50s diner
- A miniature Shetland pony
- Ross Island

The background is an abstract composition of textures. On the left, there are vertical bands of light green and yellowish-green, appearing like watercolor washes or marbled paper. On the right, there is a large, dark red area with a mottled, almost marbled texture, possibly representing a different material or a specific case study. The overall effect is one of layered, organic-looking patterns.

LET'S LOOK AT SOME CASES...

IDENTIFYING VALUE CONSIDERATIONS FOR ARTWORK

Does the artwork have monetary value?

- Is the artwork from a prominent artist?
- Is the artwork from a collector of prominent artists?
- Are other gifts contingent on accepting the artwork?
- Is the gift of artwork part of a larger gift?

Does the gift have soft value?

- Is the donor important to your organization?
- Can the artwork be used for display, teaching, or another use that benefits the organization?

USE CASE

MULTI-ARTIST COLLECTION

A collector of important artworks desires to give their collection as a gift to your institution. The collection has several significant pieces and an appraisal of the collection has been completed. The artwork comes with a modest financial gift to manage the collection.

Values: The variety and significance of artists in the collection, along with the organization of the donor, offers the potential to quickly monetize the significant work and facilitate dispersing the remainder.

Risks: You will need secure storage for the artwork while developing an expedited sale and dispersal plan.



USE CASE

PROMINENT ARTIST DONATION

Work by an important artist with a significant body of work held by both private collectors and museums throughout the country is offered as a gift. The artist was deliberate in organizing their work and documenting their career.

Values: There is opportunity to add significant pieces to your permanent collection, and/or either hold the collection as an investment or monetize it in the near term; the well organized collection will reduce administrative costs.

Risks: Managing work by an important artist without a curator or registrar or sufficient storage and handling facilities could be onerous with the potential for both physical and reputational damage.

USE CASE

ARTIST WITH TIES TO YOUR ORGANIZATION

An artist attended your educational institution, has a long history of modest financial gifts and their spouse is on your Board of Directors. While admired, the artist has a limited place in the cultural landscape with minor representation in private collections. The artwork is largely un-inventoried, with portions of the collection in multiple locations. Some career documentation exists but is in varying states of order. The donor is aware that you may accept a few pieces into your permanent location, but the bulk of the collection is offered as a gift to be used to generate income for programming.

Values: Accepting this gift has internal stakeholder value and may help attract other donors; The donor is flexible with its use.

Risks: This collection will be difficult to monetize, may carry significant administrative costs, and may be sensitive internally.



IDENTIFYING RISK

You've identified the values of the gift to your organization, and you are thinking of accepting it. Keep in mind the risks we identified from our use cases:

- Large numbers of objects require administration: staff time, shipping, consolidation, storage, inventory, marketing and sales
- Objects may or may not be in good condition: restoration may be required; some objects may need to be destroyed
- Objects need to be valued: appraisals
- Donor considerations: potential tax benefits; “permanent” acceptance of gift by donee (3 years); appraisal costs paid by donor; storage fees

HOLDING & DISPERSING ARTWORK

INTERNAL USE

- Permanent collection
- Study collection
- Gift collection

SALES

- Strategic plan, including awareness of duration
- Sales through dealers or consignment
- Direct sales

DISPOSAL

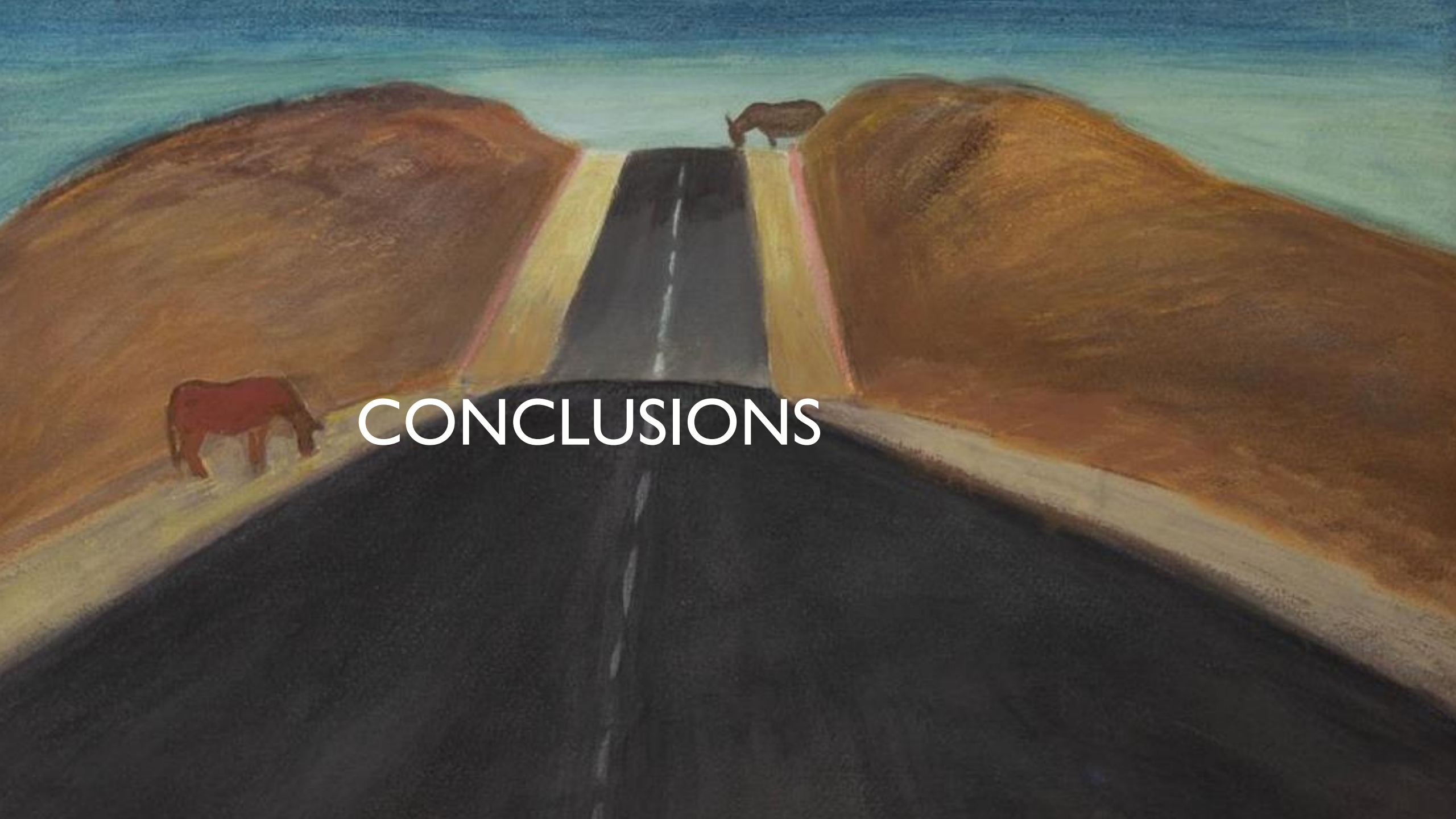
- No one wants to think about this
- Reputation issue
- Thoughtful and thorough

THE IMPORTANCE OF PARTNERS

To manage a donated art collection requires an arc of activity, beginning with shipping, storage and handling and ending in sale and dispersal. Along the way you may engage with a variety of partners:

- Shippers
- Storage and handling specialists
- Conservators
- Appraisers and historians
- Dealers and private collectors





CONCLUSIONS

TAKEAWAYS FOR ANALYZING GIFTS OF ART

The less prominent and less well-organized a collection is, the more expensive it will be to manage.

At X Gallery we see the same set of needs recur throughout the life-cycle of artwork (appraisal, inventory, photography, conservation, storage, sales). Often the work to meet these needs will not have been done, and will need to be considered in order to maximize donated value – either before or after the donation is completed.

For development professionals, understanding the values of the gift and weighing them against the risks and administrative costs will help you understand whether to say yes.



GENERAL TAKEAWAYS

- Gifts of illiquid assets are trending upwards
- Positioning your organization to accept gifts of illiquid assets can add significant value to your fundraising opportunities and results
- Gifts of illiquid assets come with risks that need managing
- Adopt gift acceptance policies, follow gift acceptance procedures, and document decisions
- Gift planners are superhuman, but even Batman needed Robin. Partners are key.

THANK YOU

For additional questions, contact:

Kathy Saitas, Advancement Counsel and Senior Director of Gift Planning, Reed College,
kathy.saitas@reed.edu; 503-777-7759

Zach Hull, President, zach@xgalleryart.com or Jennifer Viviano, Managing Director,
jennifer@xgalleryart.com at X Gallery Art (971) 200-1984.

Other resources:

Reed College Gift Acceptance Policy, Reed College

A Guide to Ethical Decision Making for Nonprofits, Markkula Center for Applied Ethics at Santa Clara University

