

# Gift Acceptance and Management of Specialty Assets

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The Good, Bad and The Ugly

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Together we'll go far



# Specialty Assets

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- Oil, Gas & Other Minerals
- Real Estate
  - Residential
  - Commercial
  - Development Land
- Farm & Ranches
  - Crops
  - Livestock
  - Hunting
  - Recreational















# Financial Assets Alone Do Not Reflect Client Portfolio

As estate sizes increase...

- 1) the proportion of non-financial assets increase; and
- 2) the proportion of cash assets decrease.

Estate Size	Holdings					
	Non-Financial* Assets \$	%	Financial** Assets \$	%	Cash Assets \$	%
\$2.0 million < \$3.5 million	13,747,380,000	31%	24,313,585,000	55%	6,036,505,000	14%
\$3.5 million < \$5.0 million	7,438,191,000	33%	12,435,171,000	55%	2,852,334,000	13%
\$5.0 million < \$10.0 million	12,264,955,000	35%	19,089,656,000	54%	3,718,130,000	11%
\$10.0 million < \$20.0 million	9,362,539,000	37%	13,840,110,000	54%	2,427,164,000	9%
\$20.0 million or more	34,315,732,000	48%	32,450,576,000	45%	4,951,117,000	7%

Data is based on IRS 2008 Estate Tax Return.

\* Non Financials include: Other real estate, real estate partnerships, closely held stock, unclassifiable mutual funds, farm assets, private equity and hedge funds, other limited partnerships, other non-corporate business assets, mortgages and notes, and depletables/intangibles.

\*\* Financials include: Publicly traded stock, state and local bonds, federal savings bonds, other federal bonds, corporate and foreign bonds, bond funds, and retirement assets.

# Challenges Faced by Non-Profits

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- Lack Experience to Evaluate Gifts of Specialty Assets
  - Environmental Condition
  - Cash Flow Analysis
  - Title
  - Survey
  - Future Marketability of Asset

# Challenges Faced by Non-Profits

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- Lack Experience and Staffing to Manage Specialty Assets
  - Property Management Issues
  - Understanding Local Codes, Legal Issues, etc.
  - Inspecting Assets
  - Negotiating Leases
  - Property Disposition Issues
  - Developing a Marketing Plan
  - Negotiating Sales

# Gift Acceptance Policy

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- Critical First Step is to Develop Policy for Gift Acceptance
- Helps Development Officer Explain Process to Donors
- Serves to Educate Staff and Board About Critical Issues That Can be Triggered by Gifts of Specialty Assets
- Acceptance of Specialty Assets Require More Due Diligence Than Acceptance of Securities or Cash

# Gift Acceptance Policy

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- Purpose of Due Diligence
  - Establish that Asset Meets Investment Criteria of Non-Profit
  - Asset is Consistent With Overall Portfolio Strategy
  - Establish that Asset Does Not Require a Burdensome Investment of Operating Capital
  - Establish that Asset is Not a Liability
  - UBTI Questions

# Gift Acceptance Policy Checklist

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- Minimum Information Needed From Donor
  - Any Available Deeds
  - Map or Plat of the Property
  - Legal Description
  - Tax Receipt
  - Easements or Other Covenants
  - Title Policy
  - Copies of Environmental Studies
  - Copies of Any Debt Instruments (Deed of Trust, Notes, etc.)
  - Copy of Donor's Insurance Policies Affecting Property
  - Copies of Any Leases on Property
  - Copies of Any Appraisals
  - Any Current or Threatened Legal Action Regarding Property
  - Copies of Any Government Notices Regarding Violations

## Gift Acceptance Policy Checklist (Continued)

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- For Improved and Income Producing Properties  
(In Addition to the Above Information)
  - Copies of Operating Statements, i.e., Rent Rolls
  - Copies of Third Party Leasing or Management Agreements
  - Copies of Service Contracts and Warranties
  - Copies of Certificates of Occupancy
  - Inventory of Personal Property (If Also Gifted)

## Gift Acceptance Policy Checklist (Continued)

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- For Mineral Interests
  - Copy of Mineral Deed
  - Copy of Any Leases, Division Orders and Check Stubs
  - Copies of Tax Statements
  - Copies of Joint Interest Billings (If Working Interest)

# Next Steps

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- Physical Evaluation
- Legal and Title Review
- Financial Review
- Valuation or Appraisal
- Secondary Due Diligence
- Recommendation to Board
- Transfer of Property

# Post Gift Acceptance Policy

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- Held for Investment or Sold for Cash
- If Sold...
  - Current Independent Valuation
  - Determine Offering Price
  - Develop Marketing Plan
  - Expose Asset To Broadest Market Possible
- If Held...
  - Set Up Files
  - Set Up Ticklers for Income Receipts and Disbursements
  - Annual Review of Performance

# Outsourcing Management of Assets

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- Be the Bad Guy and Say No
- Optimize Profitability of Asset
- Helps in Meeting Critical Deadlines
- Provide Transactional Experience in Sale of Asset
- Expand the Opportunity for Gift

# Expanding Opportunity for Gifts

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- “Heartstring” Assets in Many Cases
- Accepting Specialty Asset Gives Non-Profits a Competitive Advantage
  - But Don’t Become a Dumping Ground
- Proper Due Diligence and Management are the Key

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## Professional Experience

- Paul Midkiff joined Wells Fargo in 2010 and is currently the Manager of the Wells Fargo Oil, Gas and Mineral Management Department
- Paul's group includes 23 professionals in five locations providing a comprehensive suite of Mineral Property Management services to help clients maximize returns and minimize risks associated with their mineral holdings
- Prior to joining Wells Fargo, Paul did consulting work from 2008-2010 and ran the Specialty Assets Group at JP Morgan from 2004-2008
- Paul has been working with the Oil and Gas Industry for 30 years

## Education

- B.B.A., Petroleum Land Management, University of Texas at Austin

## Professional Affiliations

- American Association of Professional Landmen
- Fort Worth Association of Professional Landmen
- National Association of Royalty Owners
- Texas Independent Producers and Royalty Owners
- Texas Land and Mineral Association

## Professional Designations

- Certified Professional Landman (CPL)
- Certified Mineral Manager (CMM)