Extreme Concentration of Non-Cash Acceptance:
An Analysis of America's Largest Charities Part II (2023)

Brad Caswell, MBA, Ryan Raffin, JD, CAP® and Bryan Clontz, Ph.D., CFP®, CAP®
Charitable Solutions, LLC

Gifts of illiquid assets are the most underutilized category of charitable asset. Cash is certainly a simple and obvious asset, as is publicly-traded stock. But how much cash and public stock does the average donor hold, compared to other assets they own? Some research suggests that mass affluent households typically hold 24% of their assets in equities and cash, while high net worth households typically hold 35%.[1] That is a distinct minority of overall net worth compared to other asset types. As Dr. Russell James III suggests in his 2018 paper "Cash Is Not King for Fundraising: Gifts of Noncash Assets Predict Contributions Growth," nonprofits can benefit by "[s]hifting donations from cash to noncash assets, particularly asset types representing substantial wealth."

This white paper suggests a corollary to Dr. James' thesis. His work indicates that nonprofits who *emphasize* gifts of noncash assets experience greater contribution growth than those who receive only cash. Based on an informal review of tax filings from approximately 550 of the largest charities in the country, the authors suggest that **only a small minority of charities regularly accept illiquid assets**. Taken together, it appears that this minority is taking advantage of the opportunity for contribution growth that Dr. James observes.

Structure of the 990 Review

The authors reviewed the publicly filed Schedule Ms from the IRS Form 990. That schedule is part of the annual IRS 990 return for tax-exempt organizations, and it specifically reports contribution details based on the type of non-cash asset. This review was done for 555 nonprofit organizations generally identified from Guidestar's database, filtering specifically for organizations with greater than $100 million in revenue. It does not include religious organizations which are not required to file a 990. The review also likely excludes non-cash assets funding charitable trusts (including remainder trusts and lead trusts) and annuities. The information was obtained from the GuideStar website for the most recently posted Form 990. These were generally 990s for the fiscal years 2020 and 2021, although sometimes the 2019 fiscal year was the latest available return.

The review focused on two specific categories of noncash asset: business interests that are not publicly traded, and real estate. The rationale for focusing on these categories is quite simple – these are the most common types of asset for a potential donor to own, other than cash and public stock. Business interests and real estate are appealing asset types for donations, since they are frequently highly appreciated capital assets and attractive from the perspective of the donor's tax situation.

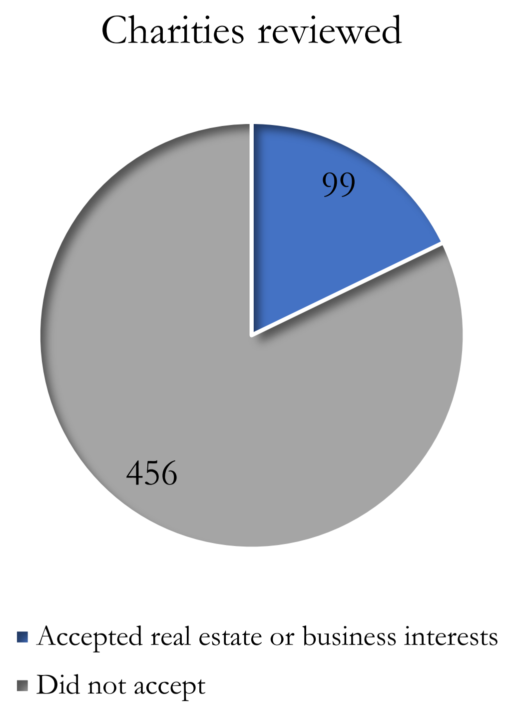
Additionally, the review paid special attention to charities which accepted 4 or more contributions of each noncash asset class. In the view of the authors, accepting an average of one or more noncash gifts per quarter is a reasonable baseline for a given asset type, suggesting knowledge and processing experience. One of the primary reasons charities cite for not accepting business interests or real estate is

[1] Spectrem Group, "The Affluent Investor: Insights and Opportunities for Advisors," page 9 (2014).

the complexity associated with the gifts. Charities that accept such gifts on a regular basis clearly have expertise and experience that makes them comfortable accepting and managing the asset.

<u>Overview of the Results</u>

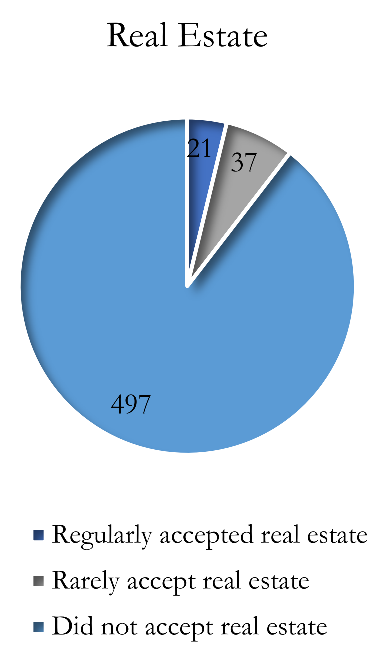
Not even 20% of the 555 examined charities show a business interest or real estate donation on their Schedule M. Only 99 reported receiving at least one gift of either a business interest or real estate, and the remaining 456 reported nothing. The reported contributions were worth over $6 billion.



For overall context of this survey, the total contributions, including all asset types, for all **555 organizations were valued at $272.9 billion.** For the 100 organizations who reported business interest or real estate gifts, the total contributions were $92 billion.

We observed that 62 organizations accepted a business interest gift. The total value was $5.84 billion for 1,861 contributions – an average of $3.29 million per gift. Of these 62, **only 32 organizations handled 4 or more business interest donations per year.**

We found 58 organizations accepted a real estate gift. The total value was $355 million from 295 contributions – an average of $1.2 million per gift. And of this group, **only 21 handled 4 or more real estate donations per year**.



The preponderance of non-cash gifts are comprised of publicly held securities, and of the 555 organizations in the survey, there were $34.32 billion worth of public stock gifts. **Therefore, included charities received an average of $61.84 million of public stock (median likely much lower, of course).**

Note that 23 organizations reported accepting both business interests and real estate.

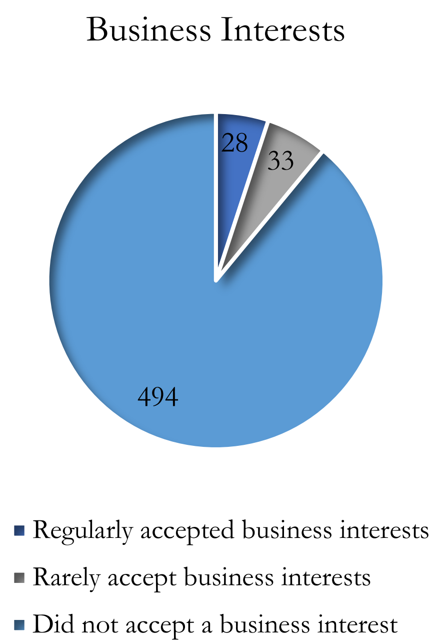
Analysis of the Results

Higher gift value but only a few take advantage of gifts of these assets

The 99 organizations who accepted business interest or real estate gifts received 34% of total contribution value for all asset types. They represented only 18% of the charities in the survey. As an initial point, this indicates that the **charities accepting business interests or real estate are receiving a higher total value for all contribution types** generally. This is consistent with Dr. James' findings as well.

Barely over one tenth of the 555 organizations reported accepting a business interest gift – 11%, yet a mere 6% of the 555 regularly accepted business interest gifts. Similarly, only 10% of the organizations accepted real estate, and 4% of the organizations did so regularly.

Even before examining the organizations doing regular acceptance of these assets, it is clear that only a fraction of the nation's largest charities have meaningful experience with accepting and managing noncash contributions.



Concentration of gifts found among just a few organizations

Ten organizations received over half (55%) of the business interest gifts: 1,505 of the 2,753 business interest contributions in the review. Those 1,505 contributions were worth just under $3.5 billion dollars – 60% of the total value of business interests in the review. Interestingly, the top seven organizations by value of all contributions are not the same top seven organizations by total value of business interests. The top **ten organizations by total value accepted an incredible $4.31 billion worth of business interests** – 87% of the total value in the review.

This clustering of donations among the top organizations especially stands out when looking at the *number* of business interests accepted. At that low end, several charities accepted only a single business interest gift in the reported year. The value per gift for those charities averages less than $1 million. The top ten charities by number of business interests accepted averaged $3.1 million. Examining the top organizations accepting business interests by total value confirms this trend – these organizations have multimillion-dollar average gift values. The takeaway is that charities who accept large numbers of business interest donations also generally receive more highly valued donations on average.

Of the 295 real estate contributions, nearly 60% of the value ($191 million) was accepted by just four organizations. As with business interests, this means that the majority of real estate contributions went to a tiny portion of the nonprofits that even accepted this sort of asset. The value of these contributions is roughly in line with the number of contributions. Although one of the three top organizations did not report a value for its real estate, the remaining two reported just over $47 million in donated real estate value. That is 44.7% of the total value of real estate gifts. These results strongly suggest that a select group of nonprofits is accepting a disproportionate segment of donated real estate.

As with business interests, there appears to be a clustering effect among the very top charities accepting real estate, albeit less than that with business interests. Looking at only the top 10 organizations, the total number of gifts range from 539 to as few as 38. Interestingly, the average gift value for the top charities is not necessarily above the average for the group as a whole. That is to say, many charities who are accepting only 1 or 2 real estate donations per year are accepting only very valuable real estate. Although this was an informal review, these numbers are revealing. **Even the largest nonprofits in the United States tend not to accept donations of real estate or business interests.** Those that do accept such donations typically do not take them regularly – not even averaging one a quarter. Just a small handful of charities is accepting the overwhelming majority of these assets. Donor advised funds, in particular, dominate the business interest category, although they are much less active in the real estate donation space. The sponsor of this paper, Dechomai Foundation, Inc., accepts both asset types, and is second overall in terms of total value of business interests and real estate accepted.

The concentration of gifts is a strange result, considering the total value of accepted contributions was $5.84 billion. We can posit that the number of these non-cash assets which were not accepted (regardless of which organization was the intended donee charity) suggests the total pool of possible donations is significant. **Compare the business interest and real estate opportunity to the donations of public stock – the average gift there was about $64,000. That is a far cry from the $3.29 million average for business interests and $1.46 million for real estate.** It seems that most charities would rather target cash and public stock than work on illiquid donations, even when the value of those donations are worth materially more on average.

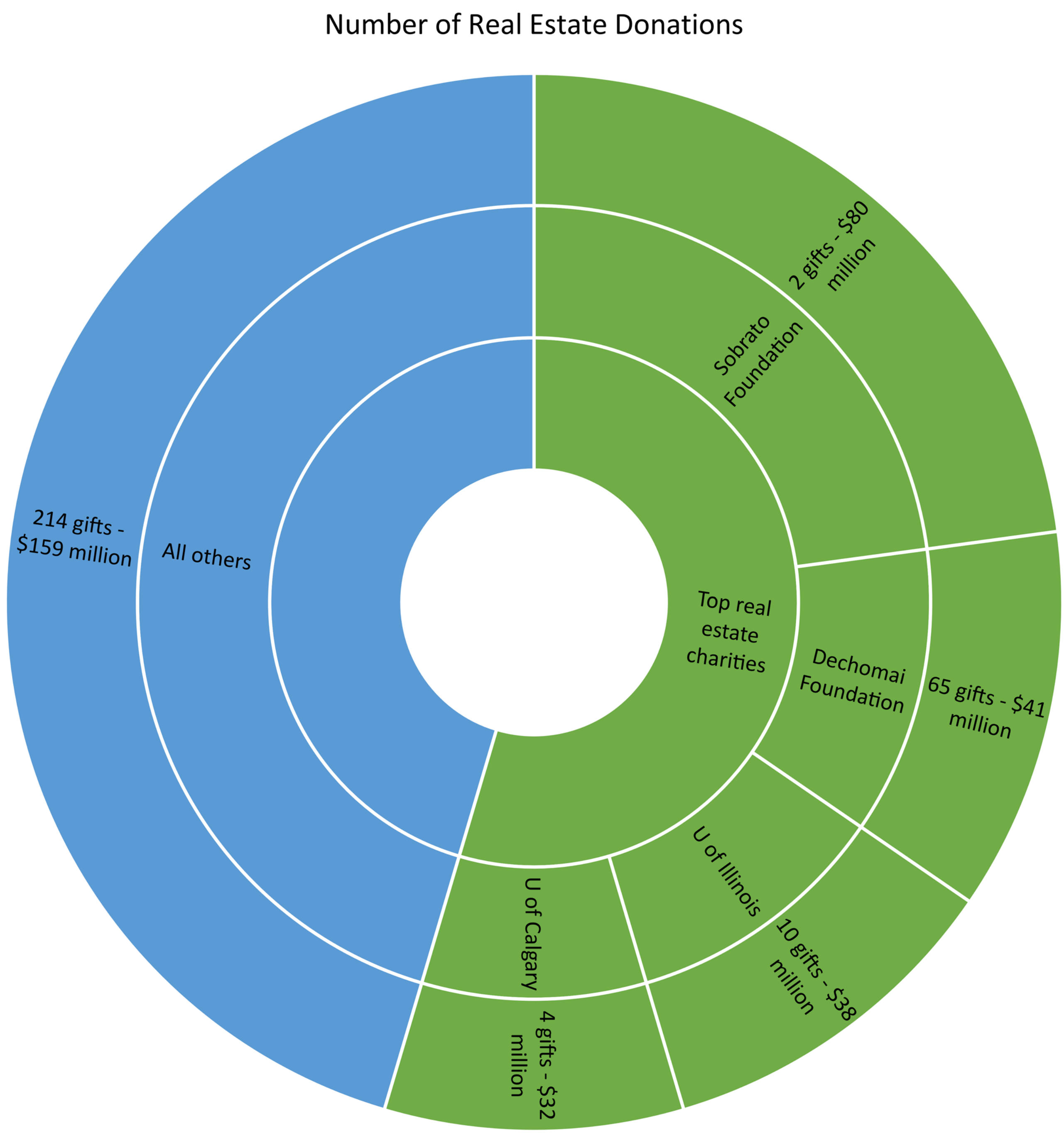
Confirming the results of Dr. James' study, it again seems that **there is a considerable opportunity for those who emphasize and promote contributions of these non-cash assets**. This qualitative study suggests that even the largest charities are not participating in non-cash transactions, while the hyper-concentrated group active in this space are achieving outsized success. This creates a series of additional research questions: Are the charities which rarely or never accept these assets simply unaware of these opportunities? Or are they aware, but unwilling or unsure of how to engage in these opportunities? If unwilling, is it because of perceived risk, cost, or time to be expended? Or is there simply a belief that special expertise is necessary to accept gifts of real estate or business interests? Do the most active charities in the non-cash space change year over year or are they the consistent market leaders? It is difficult to identify a precise reason or combination thereof. Whatever the reason, a small group of charities is dominating each category of noncash assets.

Conclusion

Although the survey examined over 555 top charities, and admittedly omitted a number of organizations who may have accepted these assets, only a minority had closed on donations of business interests or real estate. Even in that minority, **only a very small group regularly accepted these non-cash assets,** suggesting they have a confidence and capability that doesn't exist with so many other charities. Even without further analysis, even among the nation's top charities, most do not feel comfortable accepting more illiquid donations such as business interests or real estate. Conversely, the charities that regularly deal with these types of contributions clearly do have the expertise and processes necessary to evaluate, accept, and liquidate the donations, ultimately deriving a large dollar benefit from these gifts.

Consider these results alongside those in Dr. James' study, which suggested that charities that accept noncash assets see meaningful growth in contribution value over time. In that context, our informal survey suggests that a strikingly large number of charities is missing out on these high value opportunities, while a strikingly small number is capturing a disproportionately large number of gifts.

Business Interest Donations and Value


Number of Real Estate Donations
214 gifts - $159 million
All others
Top real estate charities
Sobrato Foundation
2 gifts - $80 million
Dechomai Foundation
65 gifts - $41 million
U of Illinois
10 gifts - $38 million
U of Calgary
4 gifts - $32 million

Comparison to 2017 Data

- In 2023, we observed that 62 organizations accepted a business interest gift. The total value was $5.84 billion for 1,861 contributions – an average of $3.29 million per gift. Of these 63, **only 32 organizations handled 4 or more business interest donations per year.**

  In 2017, we observed that 68 organizations accepted a business interest gift. The total value was $1.78 billion for 876 contributions – an average of $2.04 million per gift. Of these 68, **only 36 organizations handled 4 or more business interest donations per year.**

- In 2023, we found 58 organizations accepted a real estate gift. The total value was $355 million from 295 contributions – an average of $1.2 million per gift. And of this group, **only 21 handled 4 or more real estate donations per year**.

  In 2017, we found 54 organizations accepted a real estate gift. The total value was $224.3 million for 348 contributions – an average of $640,000 per gift. And of this group, **only 15 handled 4 or more real estate donations per year**.

- In 2023, the top **ten organizations by total value accepted an incredible $4.31 billion worth of business interests** – 87% of the total value in the review.

  In 2017, the top **seven organizations by total value accepted $1.435 billion worth of business interests** – 80% of the total value in the review.

- **In 2023, of the 295 real estate contributions, nearly 60% of the value ($191 million) was accepted by just four organizations**.

  In 2017, the 348 real estate contributions, half (174) were accepted by just three organizations.