ASSURANCE INSIGHTS

Classifying Nonprofit Contributions

A decision guide for conditions, donor restrictions and revenue recognition

THE CORE DECISION

The presence of donor language does not automatically make a contribution restricted, and a restriction does not defer revenue. Correct accounting depends on the sequence of the analysis.

CONTRIBUTION OR EXCHANGE | CONDITIONALITY | DONOR RESTRICTIONS

Includes an authoritative decision flow, worked examples and a fillable classification memorandum.

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TECHNICAL FRAMEWORK

Use the framework in sequence

Contribution classification is not a single yes-or-no judgment. Each conclusion depends on the decision immediately before it. Skipping a step can produce the wrong revenue timing or the wrong net-asset classification.

01

Identify the transaction

Determine whether the resource provider receives commensurate value. If so, apply the applicable exchange-revenue guidance.

02

Evaluate conditionality

For a contribution, identify both a barrier and a right of return or release. Both are required for a donor condition.

03

Classify net assets

Once unconditional, evaluate purpose and time restrictions imposed by the donor, not internal board designations.

04

Recognize releases

Track when purpose or time restrictions are satisfied and apply the organization's simultaneous-release policy consistently.

05

Document the judgment

Retain the agreement language, analysis, conclusion, accounting entry and reviewer approval.

Important distinction

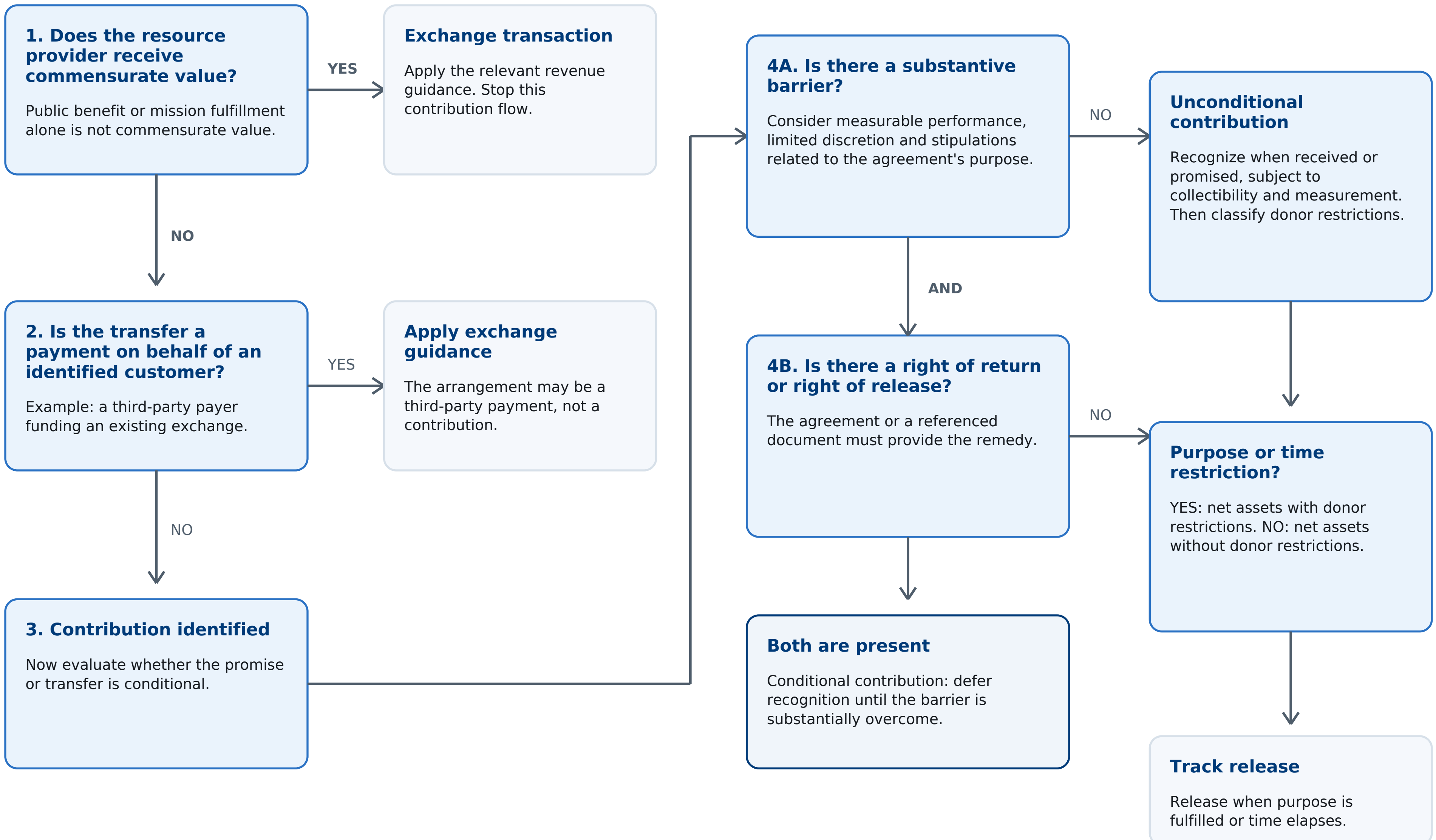
A condition affects whether and when contribution revenue is recognized. A donor restriction affects the net-asset class and how the contribution may be used after it is recognized.

Primary technical basis: FASB ASC 958-605; ASU 2018-08; ASU 2016-14.

DECISION FLOW

How should the receipt be classified?

Follow each decision in order. A restriction analysis begins only after a contribution is unconditional.



Judgment point: if it is not clear whether a stipulation is a condition, ASC 958-605 requires treating it as conditional.

DECISION 1

Contribution or exchange?

The central question is whether the resource provider receives commensurate value in return for the assets transferred. Benefits to the general public, fulfillment of the provider's mission and donor recognition generally do not constitute commensurate value to the provider.

Evidence that points toward an exchange

- The provider receives identifiable goods or services of approximately equal value.
- The recipient has enforceable performance obligations to a customer.
- Payment is made on behalf of an identified customer in an existing exchange transaction.

Evidence that does not create an exchange

- The program benefits the public, a community or an incidental beneficiary.
- The transfer advances the resource provider's charitable or governmental mission.
- The provider receives reports, acknowledgments or positive public recognition.

Government grants require the same analysis

A government agency is not automatically a customer. Determine whether the agency itself receives commensurate value. A grant may be a contribution, often conditional, even when it includes detailed budgets, reporting and program requirements.

Practical documentation

- Identify the specific goods or services, if any, delivered to the resource provider.
- Describe who receives the primary benefit and whether that beneficiary is a customer.
- Compare the estimated fair value exchanged by each party.
- Retain the agreement, referenced regulations, proposal and approved budget.

Technical basis: ASC 958-605 as amended by ASU 2018-08.

DECISION 2

Condition or restriction?

A condition requires two elements

A contribution is conditional only when the agreement includes both (1) a barrier that must be overcome and (2) a right of return of transferred assets or a right of release from the promise.

Indicators of a barrier

- A measurable performance-related barrier or other measurable barrier, such as serving a specified number of beneficiaries or producing a stated level of output.
- A stipulation that limits the recipient's discretion over how an activity is conducted, beyond routine administrative requirements.
- A stipulation related to the purpose of the agreement. Requirements unrelated to the purpose are less likely to be substantive barriers.

Terms that usually are not barriers by themselves

- Routine reporting, annual audits or standard record-retention requirements.
- A general statement that funds must be used consistently with the organization's mission.
- A budget that describes intended spending but does not limit discretion in a substantive way.

Recognition result

If both elements are present, do not recognize contribution revenue until the barrier is substantially overcome. Cash received in advance is generally reported as a refundable advance. If either element is absent, the contribution is unconditional and the donor-restriction analysis follows.

Judgment rule: when it is unclear whether a stipulation is a condition, treat the contribution as conditional.

Technical basis: ASC 958-605-25; ASU 2018-08.

DECISION 3

Classifying donor restrictions

After a contribution is unconditional, classify it based on explicit donor stipulations or circumstances that clearly imply a donor restriction. Internal budgets and board designations do not create donor-restricted net assets.

With donor restrictions

- Purpose restriction: funds may be used only for a specified program, project or activity.
- Time restriction: funds are available only in a future period or under a multi-period promise.
- Perpetual restriction: the principal must be maintained in perpetuity, subject to applicable law.

Without donor restrictions

- The donor does not limit use to a specific purpose or future period.
- Management or the board earmarks resources internally. This is a designation, not a donor restriction.
- A restriction is met in the same reporting period and the organization applies an appropriate simultaneous-release policy.

Special classification points

- Promises due in future periods generally carry an implied time restriction until the receivable is due, unless donor intent indicates otherwise.
- For gifts restricted to acquire or construct long-lived assets, absent explicit donor instructions, the restriction is released when the asset is placed in service.
- Donor-restricted endowment gifts remain subject to donor stipulations and applicable law; they require a separate endowment analysis.
- Restrictions imposed by laws, contracts with lenders or management are not donor restrictions unless they arise from the donor's stipulation.

Technical basis: ASC 958-205 and 958-605; ASU 2016-14.

Recognition and release

The conclusion should drive both the initial entry and the ongoing tracking. Organizations should maintain contribution subledgers that preserve condition, restriction and release information by agreement.

CLASSIFICATION	ACCOUNTING CONSEQUENCE
Unconditional; no donor restriction	Recognize contribution revenue in net assets without donor restrictions when received or promised.
Unconditional; purpose/time restriction	Recognize contribution revenue in net assets with donor restrictions; reclassify when the restriction is satisfied.
Conditional; cash received	Record a refundable advance until the barrier is substantially overcome.
Conditional; promise only	Generally do not recognize a receivable or contribution revenue until the condition is substantially met.
Restriction met in same period	Apply the elected simultaneous-release policy consistently and disclose the policy.

Measurement and collectibility still matter

Unconditional promises may require present-value measurement and an allowance for uncollectible amounts. Classification is not a substitute for evaluating whether the promise is verifiable, measurable and collectible.

Control practices that reduce rework

- Route new agreements through accounting before funds are posted.
- Separate condition milestones from restriction-release dates in the subledger.
- Reconcile deferred/refundable advances and donor-restricted balances each reporting period.

WORKED EXAMPLES

Applying the framework

These examples illustrate the sequence of analysis; actual agreements require review of their complete terms.

FACT PATTERN	KEY JUDGMENT	RECOGNITION	NET-ASSET CLASS	TRACKING
Foundation grant requires 500 counseling sessions and gives the foundation a right of return.	**Measurable barrier plus right of return.**	Defer until barrier is substantially met; cash is a refundable advance.	Evaluate restrictions after condition is met.	Sessions and return clause
Donor gives $100,000 solely for the youth program; no return provision or performance threshold.	**Purpose restriction, not a condition.**	Recognize when received or unconditionally promised.	With donor restrictions.	Eligible program costs
Three-year unconditional pledge payable $50,000 annually.	**Future payments generally imply a time restriction.**	Recognize the unconditional promise, subject to measurement and collectibility.	With donor restrictions until due.	Due dates and releases
Board votes to reserve unrestricted cash for a future building project.	**Board designation is internal.**	No new contribution event.	Without donor restrictions.	Board-designated balance
Government contract pays the nonprofit a market rate to operate an agency call center for the government.	**Government receives commensurate service.**	Apply exchange-revenue guidance.	Not a contribution classification.	Performance obligations
Donor funds construction of a clinic and provides no release pattern.	**Capital-purpose restriction.**	Recognize unconditional gift with donor restrictions.	Release when placed in service absent explicit instructions.	Construction and in-service date

When the core flow is not enough

Certain arrangements require the contribution analysis plus specialized measurement, presentation or legal considerations. Route these items for additional review rather than forcing them into a standard restriction schedule.

Contributed nonfinancial assets

Present contributed nonfinancial assets as a separate line item from cash and other financial contributions, and provide the category-level disclosures required by ASC 958-605 as amended by ASU 2020-07.

Contributed services

Recognize only when the services create or enhance a nonfinancial asset, or require specialized skills, are provided by individuals possessing those skills and would otherwise need to be purchased.

Agency and intermediary transactions

Evaluate whether the organization has variance power or is acting as an agent, trustee or intermediary. The conclusion may produce an asset and liability rather than contribution revenue.

Endowments and split-interest arrangements

Assess donor stipulations, applicable law, spending policy and the specialized recognition and disclosure guidance. Do not treat all permanent-fund language as interchangeable.

Promises and intentions

Distinguish an unconditional promise to give from an unenforceable intention. Consider verifiable evidence, measurement, present value and collectibility.

Documentation principle

The agreement title is not determinative. Read the complete agreement, incorporated regulations, proposal, approved budget and correspondence that may establish enforceable terms.

FILLABLE WORKPAPER

Contribution classification memorandum

Complete for material or judgmental agreements and retain the executed agreement with this analysis.

DONOR / RESOURCE PROVIDER

AGREEMENT DATE

AGREEMENT OR GRANT TITLE

1. TRANSCTION SCOPE

- [ ] Contribution / nonreciprocal transfer
- [ ] Exchange transaction
- [ ] Third-party payer

EVIDENCE SUPPORTING THE CONCLUSION

2. CONDITIONALITY

- [ ] Substantive barrier present
- [ ] Right of return / release present
- [ ] Unconditional

BARRIER AND RETURN/RELEASE LANGUAGE

3. DONOR RESTRICTION

- [ ] None
- [ ] Purpose
- [ ] Time
- [ ] Perpetual
- [ ] Multiple

RESTRICTION LANGUAGE AND RELEASE TRIGGER

4. ACCOUNTING CONCLUSION

PREPARED BY / DATE

REVIEWED BY / DATE

AUTHORITATIVE GUIDANCE

Sources and technical guidance

This guide is an implementation aid. Accounting conclusions should be based on the complete facts and circumstances and the current FASB Accounting Standards Codification.

1. **FASB ASC 958-605, Not-for-Profit Entities - Revenue Recognition**

   Primary recognition and measurement guidance for contributions received, including promises, conditions, restrictions and contributed services.

2. **FASB ASC 958-205, Not-for-Profit Entities - Presentation of Financial Statements**

   Net-asset presentation and reclassification framework for donor restrictions.

3. **Accounting Standards Update 2018-08**

   Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Establishes the enhanced contribution-versus-exchange and conditional-contribution framework.

4. **Accounting Standards Update 2016-14**

   Presentation of Financial Statements of Not-for-Profit Entities. Establishes the two net-asset classes and updates restriction-release presentation.

5. **Accounting Standards Update 2020-07**

   Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.

Use of this guide

This publication provides general information and is not accounting, audit, tax or legal advice. The examples are illustrative and may not address all terms in a specific arrangement. Consult the current Codification and qualified advisers before recording material or complex transactions.

Related internal records to retain

- Executed agreement and all incorporated documents
- Classification memorandum and approval evidence
- Condition milestone and restriction-release schedules
- Related journal entries and financial statement disclosures