

# Is This Contribution Conditional?

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Under the revenue recognition Accounting Standards Update No. 2018-08 – *Clarifying the Scope and the Accounting Guidance for Contributions*, a conditional contribution cannot be recognized until barriers are overcome. But what are the characteristics of a conditional contribution under the new guidance?

There are two requirements, both of which must be met, to be a conditional contribution:

- The agreement must include a barrier
- A right to return must exist

If both requirements are not met, the contribution is considered unconditional and the revenue can be recognized immediately.

## **Barriers**

There are several different factors to help you determine if your contribution has a barrier. First, the barriers are typically measurable or performance-related. This means that the donor requires a specific achievement level before the contribution is transferred to the entity. Examples of measurable barriers include specific outcomes, a certain number of units of output, the occurrence of an event, or a matching requirement.

Keep in mind that in order to be considered an actual barrier, the stipulation must be related to the purpose of the agreement. This means that certain administrative or trivial tasks (such as preparing a budget or completing an audit) cannot be considered barriers on their own because they are not directly related to the purpose of the contribution.

Another indicator would be if the donor can limit the organization's discretion or require the organization to perform additional actions. This goes beyond the donor's purpose for the contribution and allows the donor to determine how the required activity will be conducted. Some examples include specifying that expenses must adhere to specific guidelines, a specific time frame must be used, or certain individuals must be hired. A contribution may have multiple barriers.

It is important to recognize that barriers are not the same as donor restrictions. Donor restrictions focus on how broad or narrow the purpose is compared to the organization's mission or can apply to a particular time period. Donor restrictions only affect the presentation of the revenue on the financial statements. In contrast, a donor condition specifies how that purpose might be achieved and affect when the revenue can be recognized on the financial statements. As a result, a contribution can be 1) unconditional & restricted, 2) unconditional & unrestricted, 3) conditional & restricted, or 4) conditional & unrestricted.

## **Right of Return**

Once you have established that there is at least one barrier in place, you need to review the agreement for a right of return. A right of return of the gift or a release from the donor's promise allows the donor to retrieve their contribution if the barriers are not appropriately met. The contribution must clearly identify a right of return. Although, the wording does not need to be specific, some examples of these statements could include "any unused assets will be forfeited" or "any unallowable costs must be refunded to the donor." If the donor does not mention that the gift or promise needs to be returned for any reason, then this is an unconditional contribution and can be recognized immediately. In addition, if a donor has a standard right of return clause, but no actual barriers to overcome, this would be indicative of an unconditional contribution.

## **Documentation**

If the barriers or right of return are not clearly outlined in the donor agreement, it may be a good idea to communicate with the donor and document those stipulations. The guidance also suggests that if it is not clear if a contribution is completely unconditional, the contribution should be treated as a conditional contribution.

[ASU No. 2018-08](#) includes additional guidance on contributions. Additional information or examples on this topic can be found at the [FASB website](#).

Related content: [Charitable Contributions: A Guide for Nonprofits \(video\)](#)

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