



Contributions & Grants Revisited: Clarifications With Case Studies

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Speaker Bio



Rick Cole

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Rick has more than 25 years of experience serving nonprofit organizations. As the Northeast Region Industry Leader for Nonprofit and Education, Rick focuses on audits and advisory services for nonprofit and higher education organizations. Before joining the firm in 2019, he worked at FASB, where he served as a supervising project manager for almost six years. In that role, he was the project manager on Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*; ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*; and ASU 2019-03, *Updating the Definition of Collections*. He also was coordinator for FASB's Not-for-Profit Advisory Committee. Prior to joining FASB, Rick was vice president and controller at a large national museum in New York for seven years and a senior manager with a large international accounting firm where he worked for 14 years and specialized in audits of higher education institutions and other nonprofit organizations.

Rick was recently a member of the AICPA's Not-for-Profit Entities Expert Panel. He is a lecturer at Columbia University School of Professional Studies in its Nonprofit Management Program. He also has been a frequent speaker with NACUBO, EACUBO, the AICPA, and various state CPA societies. He is a CPA in New York and New Jersey and is a member of the AICPA and New York State Society of Certified Public Accountants. Rick is a graduate of Montclair State University, with a B.S. degree and an M.B.A. degree.

Speaker Bio



Chad Avink

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Chad has more than 15 years of experience in public accounting, providing audit services for clients in a variety of industries, including education, foundation, membership, and religious organizations. Chad also specializes in single audits. He serves as the director for engagements, reviewing audit procedures, and coordinating communication with client on the timing of the audit, deadlines, staffing, and other relevant items.

He is a member of the American Institute of CPAs, New York State Society of Certified Public Accountants, and Colorado Society of CPAs.

Chad is a 2014 graduate of Leadership NOW!, a leadership development program offered through Leadership Pikes Peak, and serves on the board of directors and as treasurer for Rocky Mountain Community Land Trust.

He is a 2009 graduate of University of Phoenix, Colorado Springs, Colorado, with a B.S. degree in accounting.

Agenda

1. Contribution Clarifications
2. Case Studies



Clarifications

The FASB codification does not distinguish the difference in terms for contributions, grants, and other similar items.

What is a contribution?

- An unconditional transfer of cash or other assets to an entity or settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.
- Can be with or without donor-imposed restrictions.
- Restrictions are narrower than the overall mission of the NFP, and they are purpose (what type of activity) or time. (Don't confuse this with a condition which could be how to conduct the activity.)

Clarifications, continued

Contribution Types

- Unconditional
- Conditional
 - Contains a donor-imposed condition
 - Impacts revenue recognition
- Restricted
 - Contains a donor-imposed restriction
 - Impacts revenue classification

Clarifications, continued

Intentions to Give

- An intention to give is not defined, but essentially it is a desire to give that is not unconditional or based upon a future uncertain event.

Clarifications, continued

Conditional vs. Unconditional Contributions

For a *Donor-Imposed Condition* to Exist:

- A right of return/release must exist; **and**
- The agreement must include a barrier
 - Indicators and examples to help in determination

To determine what is a barrier, an NFP will consider indicators which will include, but are not limited to, the following:



The inclusion of a measurable performance-related barrier or other measurable barrier

(e.g., specified level of service, specific output(s) or outcome(s), match)

The extent to which a stipulation limits discretion by the recipient on the conduct of an activity

(e.g., qualifying expenses, specific protocol)

The extent to which a stipulation is related to the purpose of the agreement

(excludes administrative or trivial)



Key judgment area: performance metrics on which entitlement depends vs. “best efforts” metrics (sometimes referred to as guideposts)

Clarifications, continued

Donor Advised Funds

Generally, a donor advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a **sponsoring organization**. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.

Source:

<https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

Clarifications, continued

Donor Advised Funds

Some donors make gifts from a donor advised fund (DAF).

DAFs provide variance power to the holder of the fund, *i.e.*, a Community Foundation.

That variance power is what creates the tax deduction.

Warning – be careful of contributions that state they are being made by the donor's DAF.

Why the warning – the variance power that the DAF has creates an intention to give, not an unconditional promise.

Clarifications, continued

Agency Transactions

FASB master glossary defines an agent as – A party that acts for and on behalf of another party. For example, a third-party intermediary is an agent of the transferor if it acts on behalf of the transferor.

- *It has a second definition for an agent which is – An entity that acts for and on behalf of another. Although the term agency has a legal definition, the term is used broadly to encompass not only legal agency, but also the relationships described in Topic 958. A recipient entity acts as an agent for and on behalf of a donor if it receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. A recipient entity acts as an agent for and on behalf of a beneficiary if it agrees to solicit assets from potential donors specifically for the beneficiary's use and to distribute those assets to the beneficiary. A recipient entity also acts as an agent if a beneficiary can compel the recipient entity to make distributions to it or on its behalf.*

Clarifications, continued

Agency Transactions

This is a fairly complex area within Subtopic 958-605 of the FASB Codification.

There are many examples in the paragraphs included in 958-605-55, which is the implementation guidance for contribution accounting.

For today, our focus is on the concept of variance power and if the NFP has the ability to direct where the funds are going.

The Master Glossary of the FASB Codification defines variance power:

- *The unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party.*

Case Studies

Examples

Typical wording and what to look for

Is there variance power?

Is it an agency transaction or a contribution?

Is it conditional?

Is it restricted?

What is the accounting?

Case Studies

Example 1

I am pleased to inform you that [REDACTED] (the “Foundation”) has approved a grant of EIGHT HUNDRED FIFTY THOUSAND DOLLARS (\$850,000) (the “Grant Funds” or the “Grant”) to [REDACTED] School [REDACTED] to advance the outcomes described below (the “Program”). The following terms apply to your organization’s use of the Grant Funds:

Scope

Under United States law, Grant Funds may be expended only for charitable, scientific, literary, or educational purposes. This Grant is made only for the purposes stated in this letter agreement and Grant Funds shall be used for such purposes. Your organization must deposit the Grant Funds in an interest-bearing account or other short-term investment vehicle and must apply any interest earned to the Program. Any additional income related to Grant Funds, including but not limited to dividends, interest or appreciation must be used for the Program. Interest earned must be reported to the Foundation in any reports. Any Grant Funds not expended or committed for the purposes of the Grant within the period stated above must be returned to the Foundation, unless otherwise authorized in writing by the Foundation.

Case Studies

Example 1, continued

Outcomes

1. \$100,000 of each payment shall be allocated to the Annual Fund (except for the first payment)
2. \$50,000 of each payment shall be allocated to the Global Study program to provide financial assistance to students to allow them to participate in these educational opportunities.
3. \$40,000 of each payment shall be allocated to support a Music Residency program that will bring at least two practicing musicians, producers or songwriters to [REDACTED] each school year to engage students in writing, performing and producing music.

This is a 5-year gift agreement.

Focus on 3 and the surrounding language. Guidelines/guideposts or barriers?

Case Studies

Example 1, continued

Right of Return/Release from Obligation must be linked to not achieving the barrier.

In the example on the prior page, how would you treat the gift if next year's payment is contingent on achieving the number of musicians/songwriters, etc., being brought to the school?

How would you treat the gift if the right of return/release from obligation was not tied to achieving that number?

Case Studies

Example 2 – Legal Barriers to Completing

A donor restricted a contribution to scholarship funds for nurses that were working as part-time nurses and had a full slate of courses (15 credit hours).

State law was that nurses could not be full-time students and work part time—they could be part-time at both, but not full-time at either.

What does the NFP do when a donor's requirements are not legally possible to attain?

Case Studies

Example 3 – Agency

I wanted you to know that I have authorized the \$100,000 USD grant to CP today and expect it to be at your office within the next 10-14days. Please let me know when you receive it.

I have attached Michaela's resume and as I said would like \$65000 AUD directed to her for her medical studies in 2023 and the remainder to research in Australia, if possible.

Michaela is unaware that the grant has come from us and we would appreciate your discretion when allocating it to her.

She is very happy to come to the CP office in Wollongong or Sydney to learn more about the research you are undertaking.

I will send an introduction to her shortly.

Thank you again for your assistance with this. I think she is an excellent student and very deserving of assistance to complete her studies.

Case Studies

Example 4 – Donor Advised Gift

- Excerpt from gift agreement:

We are pleased to present a gift to [REDACTED] at the recommendation of the donor to the 2022 Fund. The 2022 Fund is a donor advised fund of [REDACTED] a program of The [REDACTED] Foundation. Please note the following details about the gift:

Account Name:	2022 Fund
Gift Amount:	\$15,000,000
Purpose of Gift:	Unrestricted

Please note that this is a one-time gift. The [REDACTED] Foundation will not accept unsolicited proposals or requests for additional gifts.

You may publicly disclose the donor’s name and the gift amount, if you wish. Please keep confidential the identities of and communications with the donor’s team. The donor may also publicly disclose the gift.

Often gifts from DAFs just mention that you have been recommended to receive a gift from their DAF.

Contributions Revisited

Example 5 – Connection to Right of Return (From the FASB Codification)

· · > Example 21: Contribution to a Recreational Organization

958-605-55-70S

NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of \$40,000 from a foundation to be used toward its tennis program. Consistent with NFP H's grant proposal, the agreement includes specific guidelines for which NFP H could use the assets (for example, to hire 10 tennis instructors or to provide a summer camp for 9 weeks) but does not specify that NFP H's entitlement to the \$40,000 is dependent upon NFP H meeting any of the specific indicated guidelines in the agreement. The grant contains a right of return for funds not spent on the tennis program.

...

958-605-55-70T

NFP H determines that this grant is not conditional because it does not contain a barrier to overcome to be entitled to the transferred assets. Although the grant agreement contains guidelines for how NFP H could spend the \$40,000, the agreement does not specify that entitlement to the transferred assets are dependent upon meeting any of the guidelines. Because the guidelines in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome. NFP H should recognize the revenue upon receipt of the assets as donor restricted because it is required to use the assets for the tennis program, which is narrower than NFP H's overall mission.

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Contributions Revisited

Example 6 – Restriction and a Right of Return (From the FASB Codification)

· · > Example 18: Contribution to a University

958-605-55-70M

NFP G is a university that is conducting a capital campaign to build a new building to house its school of mathematics and to make capital improvements to existing buildings on campus, including a new heating system and an upgraded telephone and computer network. NFP G receives an upfront grant in the amount of \$10,000 from a foundation as part of its capital campaign. The agreement contains a right of return requiring that the assets be reimbursed to the resource provider if the assets are not used for the purposes outlined in the capital campaign solicitation materials. The resource provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made.

958-605-55-70N

NFP G determines that this grant is not conditional because the agreement places limits only on the specific activity that is being funded (for example, the assets can be used toward the new building or toward other capital improvements such as the heating system and an upgraded telephone and computer network within existing buildings on campus). The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G must use the grant for the purpose outlined in the capital campaign materials. NFP G recognizes this grant as donor-restricted revenue because it must be used for capital purposes, which is narrower than NFP G's overall mission. This Example illustrates a fact pattern in which a grant can include a right of return and would be deemed a contribution that does not contain a donor-imposed condition because the return clause is not coupled with a barrier to be overcome, as determined by NFP G using judgment to assess the indicators of a barrier.

Contributions Revisited

Example 7

Emails received during fiscal 2025

- This email shall confirm my plan to pledge to NFP A in early 2026 an amount of \$1,000,000 to match the 2025 walk donations up to the amount of \$1,000,000. The name of the donor should remain anonymous.
- I shall confirm my pledge to NFP A in early 2026 a gift in the amount of \$1,000,000 to match the 2025 walk donations. The name of the donor shall remain anonymous.

Contributions Revisited

Example 8

████████████████████ is pleased to inform you that we have approved a one-time contribution (as defined below) to ████████████████████ (“**Organization**”) to support its program for ████████████████████ (the “**Program**”). We believe the Program is aligned with ████████████████████’s strategic, patient centric priorities. ████████████████████’s contribution is subject to your acceptance of the terms and conditions contained in this Letter of Agreement (this “**Agreement**”).

Termination. ████████████████████ will have the right to terminate this Agreement, without cause, upon sixty (60) days written notice. Either party will have the right to immediately terminate this Agreement if (a) it reasonably determines that continued participation in the Program would be detrimental to its reputation and goodwill; (b) the other party fails to comply with one or more material terms of this Agreement and does not correct the breach within thirty (30) days of receiving written notice of the breach. In the event of a termination under this section, the Organization will relinquish the Contribution and return all unused funds to ████████████████████ within sixty (60) days.

Does the termination option create a barrier?

Does the organization assess the likelihood of termination?

Contributions Revisited

Example 9

This agreement (the “Agreement”) is made between [REDACTED] a private grant-making foundation, organized under the laws of the State of New Jersey and recognized as exempt from federal income taxation under Code section 501(c)(3), and [REDACTED] concerning a contemplated grant of \$2,400,000 (the “Grant”) to Grantee. The purpose of the grant contemplated by this Agreement, as further elaborated in the final Project Narrative and Project Budget submitted to [REDACTED] (the “Purpose”).

Disbursement Schedule:

Scheduled Date	Amount
2023 Jan 27	\$1,200,000
2024 Jan 01	\$1,200,000

Question – Do we have an unconditional contribution?

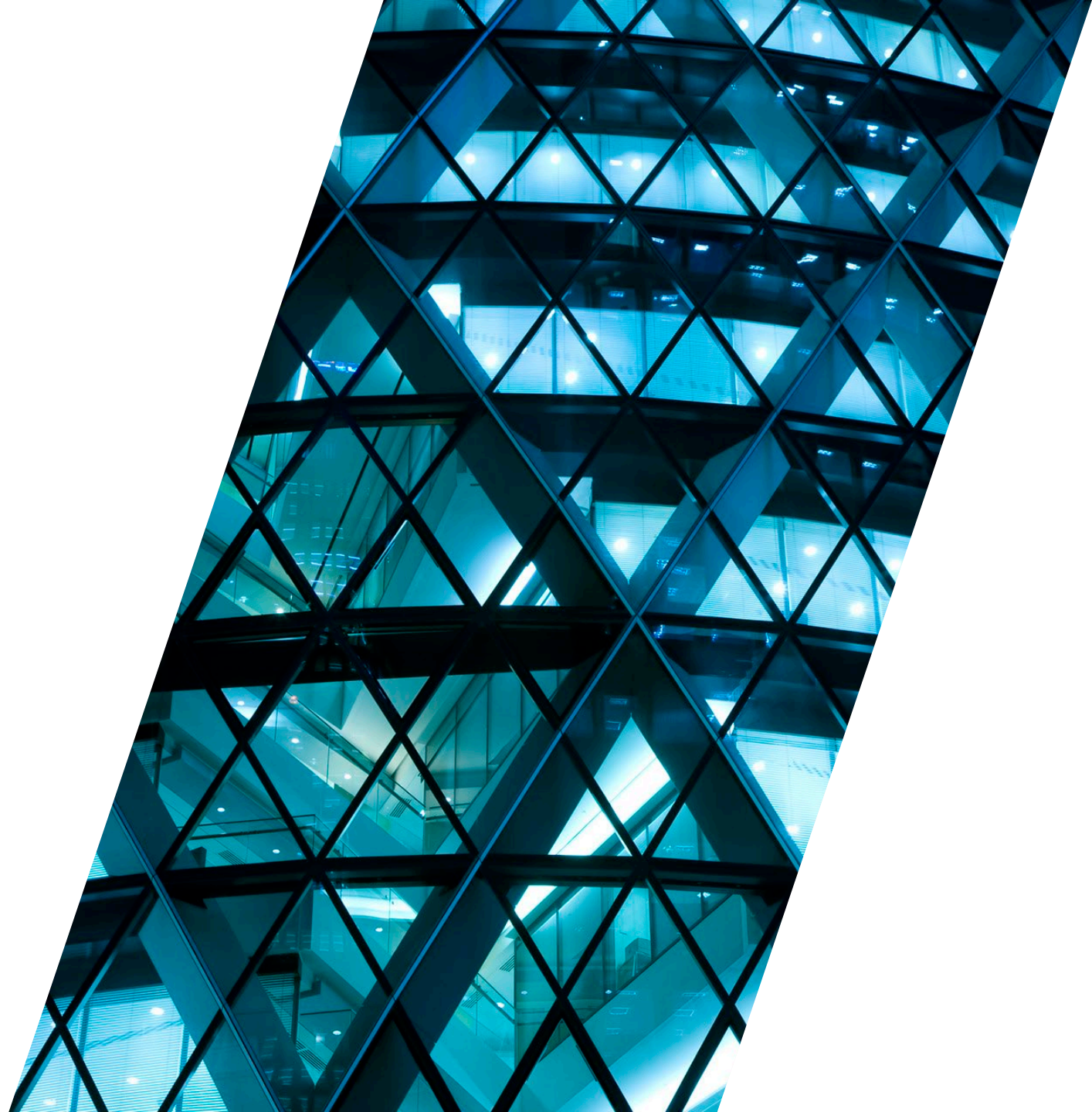
Contributions Revisited

Example 9, continued

The agreement also included this:

Section 11. Grantee's Accounting Treatment of Grant. Because this Agreement cannot be construed as giving rise to any legally binding pledge, Grantee should not recognize income associated with this grant award until funds are actually received. Grantee should consult with its accountant concerning the correct accounting treatment.

Questions?



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