

# Thrive: Non-Profit Success Stories | Contribution Accounting for Non-Profits | Transcript

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Patrick Frambes:

Next topic I wanted to talk through, a little bit more on the technical side of things. I know we had discussed some issues and questions that come up throughout any audit with a non-profit organization specific to contribution accounting.

Christa Woelfel:

Yes.

Patrick Frambes:

We have a lot of clients that receive funding from various sources, whether it's individuals, private foundations, government agencies. And there's always questions as far as how they should account for those. So wanted to see if you could speak to that a little bit just as far as maybe some guidelines on how you should account for certain transactions based on various factors.

Christa Woelfel:

Happy to talk through that. That is probably the number one question we get from our clients, is, "How should I account for this contribution?" So there are multiple steps. We try to walk them through the process so that we're teaching them as we go through it and they can start to do that on their own going forward. So, we do walk through it.

The first thing, we always want to get that contractor agreement, because it could be a contribution, or it could actually be an exchange transaction if it's considered a contract with a customer. The big thing there is if there is reciprocal value. So we want to see if that person giving the money is getting or expecting anything in return. A lot of times with our non-profits, that case is no, and we can say it is a contribution. From there, we want to know if it's conditional or unconditional.

If it's unconditional, there is no barrier that they have to overcome. They do not have to return that money back. So they get to recognize that revenue when they receive the money, or when they're pledged that amount, when they know they're going to get that money. On the flip side there, if it's conditional, there's going to be a barrier that the organization has to overcome to earn that money. And

if they don't overcome those barriers, they're going to have to pay that money back. If that's the case, the accounting is a little bit different, they're not recognizing that revenue, until they're overcoming those barriers.

One common example of that is federal funding, where there are a lot of guidelines on what you can spend that money on, and you're not going to get reimbursed if you spend it on the wrong thing. So that would be a conditional contribution, where the organization isn't recognizing that revenue until they're incurring those eligible expenses.

Patrick Frambes:

Great. One item I wanted to touch on with respect to conditional contributions, you mentioned that returning the funds and that right of return has to exist.

Christa Woelfel:

Yes.

Patrick Frambes:

I know sometimes clients will get funding ahead of the costs, and they'll also get funding after they've incurred the expenses. So maybe speak to that right of return and how would you account for a transaction if you receive the money upfront, if you haven't incurred the costs yet?

Christa Woelfel:

Yeah, absolutely. So if you do get those funds ahead of time, but you still have those barriers that you have to overcome, and there is that right of return present, you would actually have that sit on your balance sheet as a liability. It'll be considered a refundable advance. So you'll have it sit there as a liability, and then as you earn those funds, whether it's spending it down, or fulfilling certain obligations in your programs, you will then move that and recognize it as revenue as you are earning it.

Patrick Frambes:

Great. And so also the right of return could exist in the sense that if you don't incur the costs, you aren't going to be getting reimbursement.

Christa Woelfel:

Exactly.

Patrick Frambes:

It's not necessarily always that you have to give the money back, sometimes you just won't get the funding if you don't incur those costs or the barriers aren't going to be overcome.

Christa Woelfel:

Exactly. Yes, that's correct.

Patrick Frambes:

And I feel like I maybe cut you off in talking through your contributions. You mentioned unconditional contributions and conditional. Is there another type of contribution that you were going to talk on that's specific to any intentions to give?

Christa Woelfel:

So, there is also, on the receivable side, we often have pledges, or we have intentions to give. And that is a big difference, even though it's just a slight change in wording. So, if somebody is pledging you money, they're promising you that they're going to give you that money. It's a pledge, it's a promise. A lot of times we see the wording, "I will give this money to the organization." However, there are also intentions to give. Pledges to give are recorded when you know about that pledge. So they record it as a pledge receivable, and they record the revenue at that same time.

On the other side, an intention to give is different. If somebody is planning to give you money, or they intend to give you money, just a slight shift of words, you do not record that as a pledge receivable until you actually receive that money, as it's just an intention, it's not as enforceable as a pledge.

Patrick Frambes:

Okay. So in those cases, you wouldn't recognize the revenue until you receive the cash, you know that commitment has been made...

Christa Woelfel:

Correct.

Patrick Frambes:

... on the intention. We get a lot of questions about whether an individual might leave an organization in their will, or have them stated in their will, but that individual is still alive. When would you recognize the revenue from that?

Christa Woelfel:

For those type of situations, if you're left in a will, we don't want to recognize that until it is legally enforceable and you know the amount, you have a good estimate of the amount. So typically, while that individual is still alive, we will not record anything. It'll act more as an intention, as you don't know how much is going to be left to you after everything is settled with the estate.

Patrick Frambes:

And they could change their will at any point in time.

Christa Woelfel:

Exactly.

Patrick Frambes:

Yeah. I want to make sure that those are recognized more once things are a little bit more formalized, right?

Christa Woelfel:

Correct. Right.

Patrick Frambes:

Great. So you talked a little bit about the contribution versus exchange transactions. What instances might they not probably have an exchange transaction that maybe is federally funded or supported?

Christa Woelfel:

Right. So, sometimes exchange transactions, the common ones I see, if it is federal revenue, sometimes we see this with mental health services, Medicare items of that situation, where the organization is taking on that responsibility of helping those clients, but they were not doing that. Medicare, Medicaid would otherwise have to be doing that same service. Another common one we see as we are working through the fall is a lot of our private schools. Those tuition contracts and revenues are considered exchange transactions.

Patrick Frambes:

Okay. And are there ever any instances where you might have a transaction that's part exchange transactions, part contribution?

Christa Woelfel:

Absolutely. So we see this often with annual fundraisers. If you're selling tickets, when you buy that ticket for a hundred dollars, let's say, you're going there, you're getting a night of entertainment, a night of food, maybe a night of drinks, and the organization should be able to say what you are receiving, the benefit of this, is \$50. So \$50 of that is going to be an exchange transaction. The \$50 on top of that to make up the \$100 ticket price, is going to be that contribution.

Patrick Frambes:

Okay. So in those cases, that transaction's bifurcated to have a part of it be an exchange transaction and a part of it be a contribution.

Christa Woelfel:

Exactly.

Patrick Frambes:

It can be treated differently depending on which type of transaction I might use.

Christa Woelfel:

Exactly.

Patrick Frambes:

Yeah. Just to complicate things.

Christa Woelfel:

Right. One other item I will mention is donor restrictions within net assets. This is a big one for non-profits. So, this often goes hand in hand with the contributions that they're receiving. Clients often ask, "Is this a donor restricted? Do we need to be tracking this?" And with that, I would say we always want to follow the donor intention.

So, if donor gives you money and they say it's just for operations, that's fine, you don't need to track that, they just want to help the operations of the program. However, if they say it's for a specific program or specific year, we need to make sure we're tracking that, so that we are ensuring we have that money, it's for this intended purpose. Also, we are incurring those expenses and releasing that money as the donor wishes.

Patrick Frambes:

Yeah, no, thank you for that reminder. And with respect to donor contributions and the restrictions, you mentioned the purpose restriction as well, time restriction. Sometimes there can be a case where they're both purpose- and time-restricted for a specific period of time, but also for a purpose. So, making sure that their clients are tracking that very diligently is important, as the donor's intention is really what you have to go back to, to make sure you're utilizing those funds appropriately.