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Conditional Versus Unconditional Multi-Year Grants
Why the Distinction Matters

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For foundations and other grantmaking organizations, multi-year grant agreements are important tools for advancing long-term philanthropic initiatives and providing continuous support to recipient organizations. Not all multi-year grant arrangements are structured the same way, however, and the specific terms of an agreement can have significant accounting, financial reporting and other operational implications for the grantor to consider.

A multi-year grant can be structured as either an unconditional grant commitment in which the foundation provides funding over multiple years regardless of future events or one with conditional provisions tied to performance milestones, matching requirements or other compliance-related measures. The distinction between unconditional and conditional grants directly affects the timing of grant expense recognition, the recording of liabilities, cash flow forecasting and overall financial statement presentation under U.S. GAAP.

Understanding these distinctions is essential for foundations seeking to balance accountability, flexibility and effective oversight of charitable assets. Careful evaluation of grant language and donor intent can help ensure grants are structured appropriately and accounted for consistently, while also reducing the risk of unintended financial reporting consequences.

Definitions

Unconditional grants are contributions that have no donor-imposed conditions or measurable barriers that must be overcome before the recipient is entitled to the funding. These grants are generally recognized when promised because the recipient has an unconditional right to the funds. Although these grants are deemed unconditional, the foundation may restrict the use of grant funds toward a specific program, purpose or for time-restricted general operating support, which should be clearly documented and monitored for compliance purposes.

In contrast, **conditional grants** generally include specific measurable performance barriers and either a right of return of assets transferred or a right of release from the donor's obligation to transfer future funds if the conditions are not met. Examples of qualifying barriers can include program outcomes, matching requirements, milestones or other substantive conditions that must be satisfied before funding is released or retained..

Recording of Multi-Year Unconditional Grants

Under U.S. GAAP for not-for-profit entities (ASC 958-605), when a foundation awards an unconditional multi-year grant, the foundation must recognize the full grant expense in the period the commitment is made, provided the promise is unconditional and binding.

For example, if a foundation commits $500,000 over five years to support an organization's education initiative and the grant agreement does not include any qualifying barriers or a right of return or release, the grant would be considered unconditional. As a result, the entire $500,000 would generally be recognized as grant expense in the year the commitment is made, even though the payments will be made over multiple years. A payment schedule by itself does not create a conditional grant. Future installments must be contingent upon a measurable barrier and a right of return or release.

Most multi-year grant agreements provide for annual or periodic installments to be paid to the recipient organization over the term of the agreement. At the time the grant is awarded, the foundation should record a debit to grant expense and a credit to grants payable for the full amount of the commitment. As installment payments are made in future years, the grants payable liability is reduced accordingly.

For payments due beyond one year, the liability should generally be recorded at present value using an appropriate discount rate on the date the grant is awarded. The discount is subsequently amortized over the payment period.

Recording of Multi-Year Conditional Grants

Under U.S. GAAP for not-for-profit entities (ASC 958-605), when a foundation awards a multi-year conditional grant, the foundation generally does not recognize the full grant expense at the time the agreement is executed because the obligation is contingent upon the recipient satisfying specified conditions. Instead, grant expense is recognized as the recipient substantially meets the conditions outlined in the agreement. It is common to assume that reporting requirements create a conditional grant; however, reporting requirements alone generally do not constitute a condition.

For example, if a foundation commits $500,000 over five years to support an organization's education initiative, but the grant agreement also requires the organization to enroll at least 200 students annually before receiving future funding and includes a right of release from the foundation's obligation if the enrollment target is not met, the grant would be considered conditional. As a result, the foundation would generally recognize grant expense only as the specified conditions are substantially met, rather than recognizing the entire $500,000 commitment when the grant agreement is executed.

Amounts paid to the recipient before conditions are met are typically recorded as refundable advances or conditional grant liabilities rather than grant expense. As the recipient satisfies the specified conditions, the foundation recognizes grant expense incrementally and reduces the related liability.

The Distinction with a Difference

The distinction between unconditional and conditional grants is an important consideration for foundations from both a grantmaking and financial reporting perspective. As multi-year funding arrangements become more common and complex, foundations should carefully evaluate grant language, donor intent and the presence of conditions when structuring agreements.

Proper classification under U.S. GAAP directly impacts the timing of grant expense recognition and the recording of related liabilities. Misinterpreting grant terms can result in premature expense recognition or inconsistencies in financial reporting. By clearly defining whether future payments are unconditional commitments or contingent upon specified conditions, foundations can improve financial transparency, strengthen internal forecasting and better communicate the nature and timing of funding commitments to boards, auditors and grantees.

Thoughtful drafting and review of grant agreements not only supports accurate accounting treatment but also helps foundations align grantmaking strategies with operational flexibility, compliance requirements, and long-term payout objectives

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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