Accounting for pledges isn’t as simple as it might seem

When a donor promises to make a contribution at a later date, your not-for-profit likely welcomes it. But such pledges can come with complicated accounting issues.

Conditional vs. unconditional

Let’s say a donor makes a pledge in April 2018 to contribute $10,000 in January 2019. You generally will create a pledge receivable and recognize the revenue for the April 2018 financial period. When the payment is received in January 2019, you’ll apply it to the receivable. No new revenue will result in January because the revenue already was recorded.

Of course, you can’t recognize the revenue unless the donor has made a firm commitment and the pledge is unconditional. Several factors might indicate an unconditional pledge. For example:

- The promise includes a fixed payment schedule.
- The promise includes words such as “pledge,” “binding” and “agree.”
- The amount of the promise can be determined.

Conditional promises, on the other hand, could include a requirement that your organization complete a particular project before receiving the contribution or that you send a representative to an event to receive the check in person. Matching pledges are conditional until the matching requirement is satisfied, and bequests are conditional until after the donor’s death.

You generally shouldn't recognize revenue on conditional promises until the conditions have been met. Your accounting department will require written documentation to support a pledge before recording it, such as a signed agreement that clearly details all of the terms of the pledge, including the amount and timing.

Applying discounts

Pledges must be recognized at their present value, as opposed to the amount you expect to receive in the future. For a pledge that you'll receive within a year, you can recognize the pledged amount as the present value. If the pledge will be received further in the future, though, your accounting department will need to calculate present value by applying a discount rate to the amount you expect to receive.

The discount rate is usually the market interest rate, or the interest rate a bank would charge you to borrow the amount of the pledge. Additional entries will be required to remove the discount as time elapses.

Word of caution

Proper accounting for pledge receivables can be tricky. But if you don't record them in the right financial period, you could run into audit issues and even put your funding in jeopardy. Contact us for help.