

# Basics of Nonprofit Grant Management

Presented by: James Conrad, CNAP



## Overview

- How does my organization apply for grants?
- What information do we need to report?
- What requirements do we need to meet?
- Will we need to get an audit?

If you've had these questions, today we aim to help you answer them!

# Today's Objectives

- Identify and analyze various types of grants available for nonprofit organizations
- Define grant reporting and compliance requirements
- Discover and compare grants that work for your organization
- Distinguish the ways grants can trigger reviews, audits and tax status changes for an organization

# What is a Grant?

- Funds given from one entity to another for a public benefit
- Usually given to a charitable organization or nonprofit
- Not expected to be paid back (meaning, not a loan)
- Come in different forms from different sources

# Common Sources of Grants

- Individual Donors
  - Philanthropists, Memorials
- Foundational Donors
  - Giving funds, Endowments
- Corporate Donors
  - Donations straight from for-profit entities
- Government
  - Local, State and Federal

# Individual Donors

- Generally the most simple type
  - A person identifies with your mission and wants to donate
  - They want to fund the mission
  - They write you a check
  - You thank them!
- Beware of restrictions
  - Failure to follow donor instructions allows a donor to take back their donation, and can ruin your nonprofit's reputation in the community

# Foundational Donors

- Foundations come in various forms
  - Philanthropist forms their own private foundation
  - Pooled resources from multiple donors
    - Madison Community Foundation
  - Charitable arm of for-profit entities
    - Brewers Community Foundation
    - Green Bay Packers Foundation
- Foundational grants can come in many forms, such as one-time gifts or permanent endowments

# Corporate Donors

- For-profit companies can donate to nonprofits to lower their income tax burden and increase their community goodwill
- Companies will often partner with pass-through entities, like United Way, for their employees to easily give through paycheck deductions

# Government Grants

- Frequently given to companies that provide services
  - Drug rehabilitation programs
  - Homeless and hunger relief
  - Wildlife rescue and forestry conservation
- Often competitive, limited funding
- Frequently come with stipulations, like match
- Higher likelihood of requiring an audit

# Types of Grants

- General Operational
- Building/Capital Project
- Technology
- Disaster Relief
- Small Business Development
- Business Startup

Grants can be for virtually anything that a donor wants to fund!

## Question Time! Poll #1

- Your nonprofit provides drug and alcohol rehabilitation services. A local philanthropist lost a family member to a drug overdose and wants to donate funds specifically meant for your residential treatment program. Are they allowed to tell you how to use their donation?
  - Yes, donors may tell recipients how to use their donation
  - No, we may use the donation as we see fit

# Exchange Transactions vs. Contribution

- Exchange transactions are purchases of goods and services from another entity
  - The nonprofit provides a good or service for something or someone that is defined
  - Can be in both public and private grants
- Contributions are a transfer of assets that is voluntary and nonreciprocal
  - Services funded by contributions are not defined
  - Nothing is expected in return to the donor, other than fulfilling a purpose obligation

# Exchange Transactions vs. Contribution

- The accounting treatment of an exchange transaction and contribution is different
  - Contribution revenue is fully recognized (unless conditional) at the time of donation or promise to give, even if not expected to arrive for several years
  - Exchange transaction revenue is recognized as the revenue is earned, meaning, when the good or service is delivered
- There can be gray area in determining if a grant is an exchange transaction or contribution

# Compliance – Donor Restrictions

- Donors can impose restrictions on the purpose and timing of the use of their grant
  - Purpose-restricted: the grant can only be used for a certain program, or may not be used for overhead expenses
  - Time-restricted: the grant may be used at some point in the future

NET ASSETS WITH DONOR RESTRICTIONS	
Teen Clinic	<u>33,931</u>
Total assets with donor restriction	33,931
WITHOUT DONOR RESTRICTIONS	
Undesignated	270,676
Change in Net Assets	<u>(23,499)</u>
Total assets without donor restriction	247,177
Total net assets	<u>281,108</u>

# Compliance – Donor Restrictions

- Government grants are frequently donor-restricted
  - Only used for a specific program
  - Only a certain amount of overhead may be charged to it
  - Performance of grant-based activities are put in a specific timeframe

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# Compliance – Donor Restrictions

- What about Endowments?
  - Endowments are donations of money or property made to a nonprofit, and resultant investment income is used for a purpose
  - Frequently, the principal (or “corpus”) of the endowment may not be used
  - While the nonprofit owns the endowment, in practice they do not control the use of the endowment
  - Frequently seen at educational and cultural institutions, like colleges and museums

## Harvard Declines Federal Pandemic Aid For Third Consecutive Time

The stimulus package allocated around \$40 billion in relief to thousands of colleges and universities across the country to cover pandemic-related expenses. Harvard was eligible to receive an estimated \$25.5 million, according to **an analysis** by the American Council on Education in March.

The bill — signed into law by President Joe Biden on March 11 — prioritized distributing aid to institutions with endowments of less than \$1 million. Even though the University’s endowment is valued at \$41.9 billion, Harvard was still eligible to receive funds.

The move to reject the aid is consistent with the University’s choices to reject two other rounds of federal funds last year.

In April 2020, Harvard was **set to receive nearly \$9 million** from the first aid package, but **moved not to accept the funds** after **Republican lawmakers** and **then-President Donald Trump** criticized the University for taking aid while boasting a multi-billion dollar endowment.

# Compliance – Donor Restrictions

## Are there constraints on endowment funds?

Harvard's endowment is made up of more than 14,000 individual funds, the majority of which are "restricted." This means that donors have specified that their gift must support a particular aspect of the University's work, from specific scientific research to named professorships and dedicated scholarships. These philanthropic gifts are critical to many areas of our work, each with a unique person and story behind it.

- What about Endowments?
  - Since many endowments have restrictions, they can't just be spent to plug a budget hole

# Religious Orgs and Donor Restrictions

- Tithes and offerings from congregants are not exempt from donor restriction tracking
- Restricted donations are common and frequent
  - Special collections for overseas mission work or disaster relief
  - The Flower Fund, the Building Fund, etc.
- Churches with poor fiscal practices often lose track of their restricted donations
- Members will stop giving if they think you aren't respecting your wishes

# Compliance – Donor Restrictions

- On Financial Statements, Net Assets With Donor Restriction are presented on the Statement of Financial Position (the nonprofit equivalent of a for-profit Balance Sheet)
- As a reminder, Net Assets are what is left over after subtracting what you OWE from what you OWN (the nonprofit equivalent of for-profit Equity)

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# Compliance – Grant Reporting

- Every grant is different when it comes to reporting
  - A grant from an individual may only necessitate the IRS-required donation letter
  - Government grants frequently require specific forms and formats for their report
  - Some grant reporting may make a grant more trouble than it is worth!

OMB Number: 4040-0012  
Expiration Date: 01/31/2019

<b>REQUEST FOR ADVANCE OR REIMBURSEMENT</b>	1. TYPE OF PAYMENT REQUESTED	a. "X" one or both boxes <input type="checkbox"/> ADVANCE <input checked="" type="checkbox"/> REIMBURSEMENT	2. BASIS OF REQUEST <input type="checkbox"/> CASH <input checked="" type="checkbox"/> ACCRUAL
		b. "X" the applicable box <input type="checkbox"/> FINAL <input checked="" type="checkbox"/> PARTIAL	

**FORM A - CONSOLIDATED FINANCIAL REPORT**

**APPENDIX F  
COST RESPONSE FORMS**

## Question Time! Poll #2

- Your nonprofit received a large donation from a local philanthropist, summing \$500,000 in various stocks they owned. The donation is placed into an endowment and stock dividends accumulate in a related money market account. The donor says you can spend the profits on wherever the greatest need is. What is an acceptable use of the endowment?
  - Sell all of the stocks and buy a new building
  - Use the dividends to fund your programming
  - Take out some of the stocks for a desperately needed new company van

## A Recap

- Grants come from many sources, public and private
- Grants come in various forms
- Each source can have its own restrictions on use of the grant
- Each source can have different reporting standards for each grant
- There is a different treatment for grants funding an exchange transaction versus a grant that is a contribution



# Becoming Grant Savvy

# Becoming Grant Savvy

- The grant agreement is your rulebook!
  - Purpose of the grant
  - Fulfillment rules
  - How you are to provide a good or service
  - What and when you need to report activities and spending
  - What forms you need to submit for proper funding or reimbursement

*Knowing the rules for your grants is imperative for your nonprofit!*



RFP #: 9061

Title: Laboratory Services

City Agency: Engineering

Due Date: Friday, August 27, 2021

# Requests for Proposals (RFPs)

- An RFP is a solicitation from a donor looking for goods or services from a specialized source
  - Pricing
  - Methods of Production
  - Historical information
  - Prior experience

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# Requests for Proposals (RFPs)

- RFPs for specialized services
  - Alcohol and drug detox
  - Homelessness reduction
  - Public works projects
- Competition
  - Weighted scoring of
    - Cost
    - Experience
    - Capability
    - Local operations

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# Requests for Proposals (RFPs)

- Be aware of scope and reporting requirements
  - My nonprofit can perform the services, but can our admin or accounting team handle reporting?
  - Are we undercutting our pricing where we will lose money performing the grant request?

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# Funding Structures

- Grants have various funding structures
  - Reimbursement
  - Advanced Payment
  - Timed payments (e.g., equal monthly amounts)
- Company cash flow should be considered
  - Strapped for cash? Stay away from reimbursements
  - Employees like to be paid on time

# Reporting Standards

- ***READ YOUR GRANT AGREEMENT!***
  - Not knowing what is expected will lead to adverse results
  - Grant agreements will tell you what, when and how to report
  - Agreements will have the guardrails for performance
  - Successful nonprofits have experts on grant rules and regulations

# Reporting Standards

- Don't bite off more than you can chew!
  - The scale of your staff should be part of the decision to apply for certain awards
- Any grant award can trigger higher-level accounting needs
  - Donors, no matter the size, can make a requirement for reviews and audits



# Taxes, Reviews, and Audits

# Taxes

- Form 990
  - 990-N: Gross Receipts <\$50,000
  - 990-EZ: Gross Receipts <\$200,000 *and* Total Assets \$500,000 at the end of the year
  - 990-PF: Private Foundations (no Ns or EZs)
  - 990: The full report
  - 990-T: Unrelated Business Income Tax
- Wisconsin requires reports similar to Form 990



## Taxes – Things to Consider

- Will my organization move up to the next level of 990?
- Is this grant going to be a new significant activity?
- Could activities result in Unrelated Business Income Tax?

## Reviews and Audits - Wisconsin

- Wisconsin has dollar thresholds
  - \$200,000 of contributions for a review
  - \$500,000 of contributions for an audit
  - Review/Audit must be performed by an independent CPA
  - Contributions do not include government grants
- Other states have different requirements

# Reviews and Audits - Federal

- Single Audit
  - Rigorous financial and compliance testing set forth by the Single Audit Act of 1996
  - Aggregated spending of \$750,000 federal assistance in a year
  - Provides assurance to federal government of responsible spending of federal dollars

## Question Time! Poll #3

- You are the pastor of a local church. While the parking lot is filled on Sundays, it is virtually empty the remainder of the week. Since your church is in the city and parking is difficult, you decide to open your lot on the weekdays to commuting workers. What are the tax implications?
  - None. We're a church, we don't need to pay taxes!
  - We'll have to pay taxes, but at a reduced rate compared to the private parking garage down the street
  - We'll have to pay the corporate tax rate on the profits of the parking spot sales

# Review

- Organizations can apply for and receive grants from individuals, corporations, foundations, government entities
- The information that needs to be reported to the funder depends on the grant agreement
  - Becoming familiar with each grant agreement is crucial
- Each grant will have different requirements, possibly including additional fundraising like match, or be restricted to specific programs
- Dollar thresholds and grant requirements will determine with a review or audit is necessary, and there are rigorous rules for large federal awards



# Questions?

# Thank You!

Wegner CPAs  
2921 Landmark Pl., Ste. 300  
Madison, WI 53713  
(608) 274-4020

[james.conrad@wegnercpas.com](mailto:james.conrad@wegnercpas.com)

[www.wegnercpas.com](http://www.wegnercpas.com)



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