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# Nonprofit Insights

A Newsletter for Nonprofit Decision Makers

Spring 2015

*Making the Case*

## Tips for Effective Grant Writing

**It's the nonprofit world's version** of El Dorado — a mythical land where grant money hangs from the trees, just waiting to be picked. Truth be told, there are glittering piles of money out there.

Foundations paid out a record $54 billion in 2013, up from 2012's $52 billion. Yet many nonprofits approach grant funding with a distinctively glum attitude — "Grant writing is too hard" … "It takes too much time" … "We can't afford a grant writer!"

Yes, tapping into all that government and foundation money is hard work. It challenges your organization to get its ducks in a row. There are figures to compile, data to present and deadlines to hit. But then again, $54 billion is a lot of money.

### Are You Grant-Ready?

Producing winning grant proposals requires planning, attention to detail, clear writing — and even clearer thinking. Before you ever set pen to paper, you'll need to think through some critical questions:

1. Have we planned a strong program/project?
2. Can we prepare a competitive proposal?
3. Have we identified an appropriate funder?
4. Do we have the resources we need to prepare the grant proposal?

With this in mind, consider these key steps in developing a strong grant proposal:

> Winning proposals are thoughtfully prepared, well documented and tailored to the interests and criteria of each funder.

- **Critically evaluate your project approach or idea.** And then evaluate it again. Is there a clear and compelling need? Is there evidence that your approach will work (e.g., supporting research and examples of others who have successfully used the approach)?

- **Illustrate the need.** Use statistical evidence, case examples and stories to illustrate the importance of the situation. Quantify the outcomes you anticipate and identify who will lead and implement the project. Also show that the costs are reasonable and you can justify every expense. And share how your organization has the capacity to oversee the project if it's funded — including handling the oversight, documentation and reporting requirements.

- **Look for a good fit.** Look for grant opportunities where your needs and the funding organization's interests and area of focus closely mesh. Of course, it's hard to beat having a relationship — or finding someone who has a relationship — with the decision makers at the granting agency. But at the very least, contact someone at the funding institution directly and find out more about what makes it tick before submitting the proposal.

- **Get the help you need.** Either in-house or outsourced, you need someone who can dedicate themselves to this process (see article on page 3 for more on hiring a grant writer).

### Grant Writing Gotchas

Nothing will stop a grant reviewer in his tracks faster than glaring inconsistencies. If you're lucky, funders

*Continued on page 3*

## *Nonprofits and Leases*

# Understanding the Options (and Opportunities)

**When it comes to facilities,** every nonprofit has to answer the question at one time or another: "Should we lease or buy?" Certainly, if a nonprofit has enough cash for the standard 30-35 percent down payment, buying facilities can make sense.

But leasing is a better option for many organizations today, especially newly minted nonprofits that may want more flexibility in the short-term. Leasing also requires very little in the way of up-front costs. Depending on the landlord, concession packages that include allowances and a period of free rent may reduce out-of-pocket costs to virtually zero.

### Understand the Cycle

Depending on the area, the typical lease cycle could be a 10-year term followed by a five-year renewal. In each lease "event," the costs typically increase. Yet, even in the middle of a long-term lease, there are opportunities to renegotiate the term and reduce costs or "right size" the space. Under a conventional lease, nonprofits are treated no differently than any other applicant. In fact, 501(c)3 organizations typically pay a portion of a leased building's real estate taxes just like anyone else. The only exemption is for a building that is actually purchased by the nonprofit. That said, there are some alternatives to a conventional lease that can help make leasing work for your nonprofit:

- **Seek out a sub-market lease.** Some property managers look for a tax write-off by offering space to a nonprofit at a steep discount. In these situations, the landlord or property manager can often take a tax deduction for what that space would have earned in rent, allowing them to save on taxes.

  Municipalities also work out such deals, offering nonprofits space in return for a token amount, such as $1 a year. Others offer free space in exchange for the nonprofit taking care of building maintenance and utilities. When entering into such agreements, though, nonprofits need to carefully analyze their responsibilities as far as building maintenance, damages and other potential issues.

- **Consider co-location.** Faced with tight budgets, some nonprofits are sharing space (and costs) with other nonprofits. While the benefits can be considerable, these arrangements can result in complex managerial and legal relationships. It's best to build the necessary flexibility into the lease at the outset.

- **Look for grants.** Some funders will specifically assist nonprofits in securing appropriate office space. Grants may be available to partially or fully fund a lease, while other funders may help with office equipment, supplies and overhead (such as utilities, phone service and an Internet connection).

Many nonprofits like the idea of owning a building. Yet leasing makes sense in a number of cases. Regardless, make sure all tax, legal and financial considerations are evaluated by an attorney and tax professional. ■

## Be Aware of Proposed Lease Accounting Rules

**Under the current approach to** lease accounting, leases are required to be classified as either operating leases (i.e., off-balance sheet) or capital leases (i.e., on-balance sheet). Frequently, leases of office equipment are capital leases, while office space and vehicle leases are operating leases. However, each lease must be analyzed individually.

Under an operating lease, the total lease rent obligation is not recorded on a nonprofit's books and only appears as a footnote disclosure in a set of financial statements. Under capital leases, a nonprofit records the lease obligation as debt and a related lease asset.

With new regulations in the works, nonprofits may soon be facing changes in the way that debt is recorded. The Financial Accounting Standards Board (FASB) has proposed rules that would treat all leases similar to capital leases, meaning that nonprofits would be required to record debt on their books for all leases.

The proposed regulations have been hotly debated over the past several years, and FASB and the International Accounting Standards Board (IASB) continue working jointly toward a resolution. In the meantime, nonprofits can take some actions now while waiting for the final standards:

- Stay abreast of developments related to lease accounting.
- Develop an inventory of all of your organization's lease agreements and key provisions.
- Make note of any debt covenants or contracts based on financial metrics, and consider the potential impact from the proposed changes on them. For example, debt-to-equity covenants, as well as compensation agreements based on EBITDA or other metrics, may need to be renegotiated since the calculations could be significantly impacted by the proposed changes. ■

*Contact our office today for more information on lease accounting rules.*

*FAQs:*

# The Low-Down on Hiring a Grant Writer

**Truly effective grant writing is a** team effort. It is not something grant professionals do for you, but something they do *with* you. Just like when you hire a CPA or attorney, you are investing in the future of your organization when you hire a grant writer. Consider these commonly asked grant-writing questions:

### Q: What does a grant writer cost?

**A:** American Grant Writers, Inc., a national association of professional grant researchers, writers and administrators, advises that its members typically charge $50-$100 per hour for researching grant opportunities and $50-$125 per hour for writing proposals and applications.

On the flat-fee side, one New York-based grant writing service lists prices ranging from $2,500 for rewriting a fully developed existing proposal to $3,500 for developing and drafting a new proposal.

### Q: Should we pay on a contingency basis?

**A:** In most fundraising circles, contingency arrangements — paying a grant writer a portion of the grant money received — are considered unethical. In fact, some of the established affiliations, including the Association of Fundraising Professionals, will revoke membership if a member is found to be taking pay from grants received.

The thinking here is that contingency arrangements jeopardize your relationship with the grant donor by using grant funds for overhead expenses rather than what you said you were requesting the money for.

### Q: How do we account for a grant writer's fee?

**A:** Whether it's an hourly rate for an outside consultant or salary for an in-house grant writer, this is a fundraising and overhead expense, not program/project expenses.

### Q: How can we evaluate a grant writer?

**A:** First, realize that grants are approved and rejected for many reasons, very few of which are in the writer's control. Instead of just asking, "What's your success rate?" give candidates the opportunity to demonstrate their expertise.

For example, you might lay out your priorities, strategies and budget and then allow prospects to analyze your situation and present a case for their services. The idea is to see if candidates are capable of developing a grant strategy with you or if they will simply write what you tell them to. ■

## Effective Grant Writing

*Continued from page 1*

will give you a second chance and ask you to resolve errors. But more often, they'll just reject the funding request outright. Watch out for:

- **Contradictory Data** — Be sure you've got the data right and are using it consistently throughout the proposal (e.g., statistics in one section don't contradict data in another).

- **Mismatched Amounts** — Dollar figures must be consistent throughout. As you make the inevitable last-minute budget adjustments, be sure to carry those numbers forward into the executive summary, narrative and any attachments.

- **Program Inconsistencies** — With too many cooks in the kitchen, inconsistencies can easily show up in the final document. Watch out for things such as multiple titles being used to describe the same staff position, promised outcomes that vary between sections or methodology that is described one way in one paragraph and another way in a different paragraph.

- **Neglecting the Executive Summary** — Don't scrimp on the executive summary, which is often the first section that gets read. Distill the essence of the problem/solution and how your organization is uniquely positioned to make a difference with help from the funder. Your logic should be precise and your position concise.

- **Information Creep** — Ensure that information stays in its relevant spot. For example, you don't want information about outcomes and methodology to wander into a section about problems and how the program will address them.

- **Inconsistent Style** — Use either first person or third person and stick with it throughout. Consistent use of an active voice makes for a compelling narrative.

- **Lack of Brevity** — Nothing loses a reviewer quicker than a wandering, long-winded narrative. Your challenge is to balance providing enough information to satisfy the funder's requirements with striving for the brevity your request needs to ensure it gets read in its entirety.

- **Missed Deadlines** — Follow submission deadlines scrupulously. And provide advance notice if your proposal will be tardy for some reason.

### Go Team!

Ultimately, winning grant proposals come out of a strong organizational commitment to the process. It's a commitment that should include solid planning, well-researched funding prospects and a well-written case for support. ■

# Grant Reform and New Single Audit Rules

**The Office of Management and** Budget (OMB) has released comprehensive new federal grant reform guidelines intended to consolidate guidance on administrative requirements, cost principles and audit requirements for federal awards.

Known as the "Super Circular" or "Omni Circular," these changes became effective for grant recipients as of December 26, 2014. Single audit changes are effective for years ending December 31, 2015, and after. The grant reform guidelines can be broken into three main categories:

**1. Administrative requirements —** Changes are intended to minimize the time spent complying with administrative requirements and focus on performance over compliance to provide accountability for federal funds.

**2. Cost principles —** Reforms include several changes related to the treatment of direct and indirect costs, including changes to compensation, interest costs, conference expenses and the management of indirect cost rates.

**3. Audit requirements —** The Super Circular raises the single audit (previously also known as the A-133 audit) threshold from $500,000 to $750,000 in federal expenditures. Auditors will be required to report their findings in greater detail, and the threshold for reporting findings has been increased from $10,000 to $25,000. Note that non-federal entities that expend less than $750,000 in federal funds must have records available upon request for review by the federal funding agency or pass-through entity.

**4) Indirect cost rate —** Grant reform provides an opportunity for first-time award recipients to receive a de minimis indirect cost rate of 10 percent of modified total direct costs if the entity never had a negotiated indirect cost rate. ■

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