Shaping Your Ask:

How Nonprofits Can Learn to Love Restricted Revenue

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- Offices coast to coast
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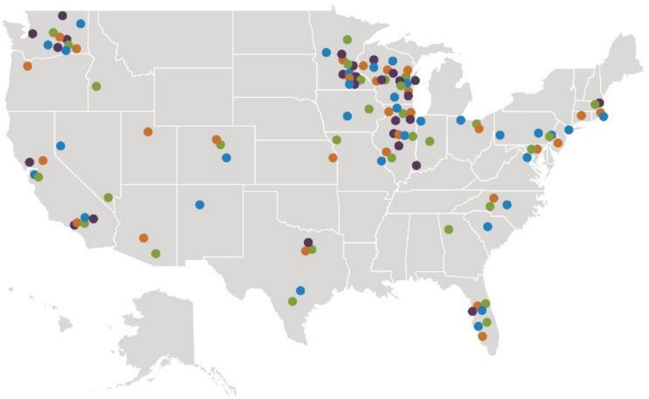

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Speaker Introductions

Jackie Eckman, CPA

- Principal

Curtis Klotz, CPA

- Director of Nonprofit Innovation

Learning Objectives

- Identify new FASB Accounting Standards Updates (ASUs) concerning revenue recognition and grants, and contributions
- Recognize the new standards as they relate to grant proposal and budget design
- Determine where and how to apply the new standards when crafting grant proposals and budgets
- Describe strategies and approaches to developing proposals and budgets that attract the most flexible funding possible

Sometimes Our Restrictions are of Our Own Making

- Donor intent determines restrictions
- Donor intent is often based on how we ask
    - ◊ Grant proposals
    - ◊ Campaign letters
    - ◊ Website appeals
- Grant award notices and cover letters reference our proposal narratives
- Proposal budgets themselves can determine grant restrictions

We’re Among Friends, Right?

We all know of examples when:

- restricted funding interfered with our organization effectiveness
- our organization could not spend all the restricted grant funds it got for a project
- our organization applied for a restricted grant that was outside our mission

Full Collaboration is a Must

Without clear communication between CEOs, Development Officers, Program Managers, and Finance Staff, we risk….

- Not covering the full costs of the work being proposed
- Describing work that is outside of our stated mission
- Not syncing with accounting standards
- Committing to work we don't have capacity to complete

It takes a whole nonprofit to raise a fund

Developing a Full-Cost Proposal Budget: Subsistence is NOT a Good Financial Strategy

What Does a Full-Cost Proposal Budget Look Like?

- Outline program work that we routinely perform
- If budget includes line-item detail, include ALL the items
- Include proportionate cost of key organizational infrastructure – admin, fundraising, communications
- Designate the cost of growing financial reserves – operating, opportunity, building
- Fund the future – innovation, research, and development
- Budget for a surplus – no zero bottom lines

Write narratives and build budgets to capture the broadest view of our mission work and organizational activities

Example: Full-Cost Proposal Budget

- Sample Nonprofit has civic engagement as its mission
- Proposes to offer 10 educational workshops about city government
- Proposes to offer 2 guided tours of city council meetings to teach residents to better engage with their elected officials
- Budget asks for $100,000
- Budget is designed to fully fund the work and contribute appropriately to the financial needs of the entire organization

Sample Full-Cost Proposal Budget

Expense	Amount	Description
Personnel	$ 55,000	Salaries and benefits
Contracted Services	8,000	Consultants, facilitators, trainers
Occupancy	4,500	Rent, utilities, maintenance, leasehold improvement
Equipment and IT	2,300	Managed IT services, equipment purchase, depreciation
Travel	2,100	Staff and participant mileage, van rental for trips to city council
Meeting Space, Meals, and Hosting	3,500	Space rental, catering, beverage service for participant events
Marketing and Communications	700	Communications to publicize workshops, engage elected officials
Operating Expenses	1,500	Supplies, photocopying, insurance, telecommunications
Program-specific materials	3,000	Printed workbooks for participants
Core Admin Allocation	12,000	Program share of core administrative support from organization
Core Fundraising Allocation	6,000	Program share of core fundraising support from organization
Total Expenses	**$ 98,600**	
Provision for Operating Reserve	700	Board-designated fund - operating reserve of 6-months cash on hand
Provision for Opportunity Reserve	700	Board-designated fund - opportunity reserve for future expansion
Total	**$ 100,000**	

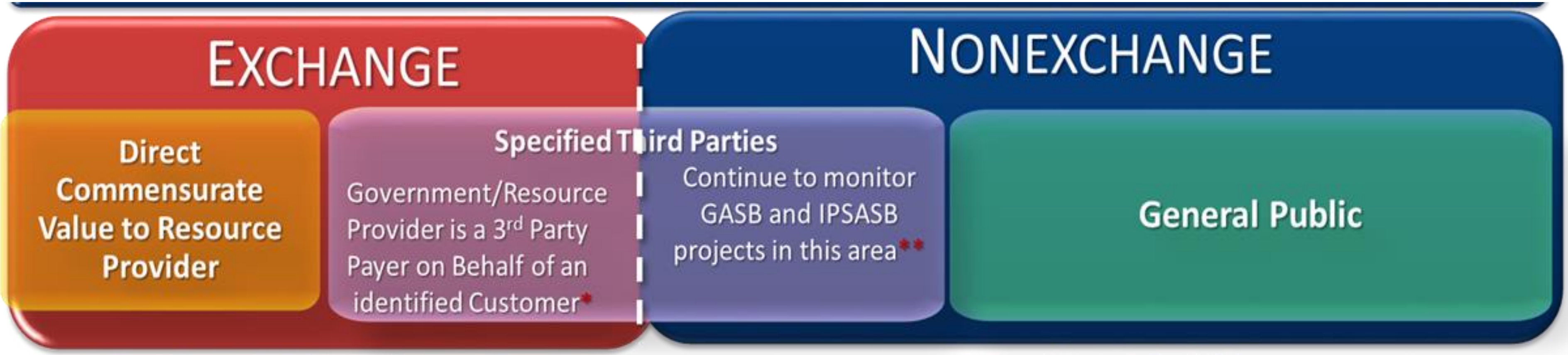
Using Accounting Standards to Inspire

Learn enough about accounting to avoid being a victim of the accounting

Never let an accounting standard get you down

Accounting Standards Update No. 2018-08

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made



Follow Topic 606 (or other, such as Leases)

Follow Topic 958-605

*The revenue recognized would actually be the underlying contract's patient service revenue, tuition revenue, etc.

**A focus on whether or not there is a "performance obligation" could even ultimately include some contracts where the general public is the primary beneficiary.

Getting Creative with Accounting
(the legal kind of creative)

Apply principles found in revenue recognition for contracts to our nonprofit grant proposal budgets.

- With a grant or contribution, there is no contract between the funder and nonprofit – not a vendor and customer arrangement
- But we can adapt the steps outlined in this standard to lay out an alternative proposal budget that impacts how restricted funds would be released.

Revenue Recognition (Topic 606)

Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle:

1. Identify contract(s) with the customer
2. Identify performance obligations
3. Determine transaction price
4. Allocate transaction price
5. Recognize revenue when (or as) a performance obligation is satisfied

Example: Deliverable-Based Proposal Budget

- Sample Nonprofit has civic engagement as its mission
- Proposes to offer 10 educational workshops about city government
- Proposes to offer 2 guided tours of city council meetings to teach residents to better engage with their elected officials
- Budget asks for $100,000
- Budget is designed to fully fund the work and contribute appropriately to the financial needs of the entire organization

Applying Revenue Recognition to Revenue Release

1. Identify contract(s) with the customer

Step 1) Instead of a contract, we are considering a grant agreement or contribution receipt or award transmittal letter.

2. Identify performance obligations

Step 2) Use proposal narrative to describe deliverables to accomplish its mission (in lieu of performance obligations). In our sample case, a civic engagement organization, the deliverables are 10 workshops and two guided tours.

Applying Revenue Recognition to Revenue Release

3. Determine transaction price

Step 3) Nonprofit would establish the total amount of support being asked for in the proposal (transaction price). In this case, that amount is $100,000.

4. Allocate transaction price

Step 4) Allocate the total amount of support (transaction price) to the various deliverables (performance obligations). In this case, the nonprofit determines that each workshop requires $9,000 of support and each guided tour requires $5,000.

Applying Revenue Recognition to Revenue Release

5. Recognize revenue when (or as) a performance obligation is satisfied

Step 5) Receive the grant award and book as a restricted contribution. Managing the restriction is quite simple – the nonprofit simply releases the allocated amount of revenue each time one of the deliverables is completed.

Sample Deliverable-Based Proposal Budget

	Amount	Description
Workshop - budget per event	$ 9,000	Each event will be three hours, attract 20 participants, be led by two staff, provide a catered light meal, and include a printed workbook
X number of events	10	
	$ 90,000	
Guided Tour of City Council Meeting	$ 5,000	Each event will be three hours, attract 20 participants, be led by three staff, include van transportation, snacks, and beverage
X number of events	2	
	$ 10,000	
Total Budget	**$ 100,000**	

Developing a Deliverable-Based Proposal Budget

The beauty of a deliverable-based budget design

- Ease of tracking and releasing the restrictions on the award
- Properly plan and calculate to cover the full costs of the proposed program
- Incremental release will cover the direct program expenses, the necessary core infrastructure costs, and reserves of the organization.

Unforeseen Consequences of Large, Multi-Year Grants

It's All About Timing

- The entire amount of unconditional, grants without donor restrictions must be booked at the time the grant is awarded
- Actual cash may not be received until one or more years later
- Releasing years two and later of a multi-year grant may cause a negative change in total net assets
- Difficult to educate statement users that change in net assets without donor restrictions is a better measure of operations

Year 1

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		750,000	750,000
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	600,000		600,000
Total Revenue	**850,000**	**500,000**	**1,350,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	550,000		550,000
Total Expenses	**800,000**	**-**	**800,000**

Change in Net Assets	**50,000**	**500,000**	**550,000**

Year 2

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		-	-
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	675,000		675,000
Total Revenue	**925,000**	**(250,000)**	**675,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	600,000		600,000
Total Expenses	**850,000**	**-**	**850,000**

Change in Net Assets	**75,000**	**(250,000)**	**(175,000)**

Year 3

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		-	-
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	725,000		725,000
Total Revenue	**975,000**	**(250,000)**	**725,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	625,000		625,000
Total Expenses	**875,000**	**-**	**875,000**

Change in Net Assets	**100,000**	**(250,000)**	**(150,000)**

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Strategies to Manage When Grant Revenue is Booked

Using Accounting to Purposefully Place Conditions on Grants

- Donor-imposed conditions are different from restrictions
- A conditional gift is not recognized – meaning it does not show up in our financial statements – until the "conditions" stipulated by the donor are satisfied
- ASU 2018-08 spells out circumstances that create a condition.
- How we draft our proposal narratives and budgets matters

Conditional vs. Unconditional Contributions
For a Donor-Imposed Condition to Exist:

Final ASU

A right of return or release must exist

AND

The agreement must include a barrier

Indicators that a barrier may exist

There is a measurable performance-related barrier	There is a stipulation that limits discretion on the conduct of an activity	The extent to which a stipulation is related to the purpose of the agreement
Specified Level of Service	Allows only qualifying expenses	YES: Convey research findings
Specific output or outcome	Required to hire specific individuals	NO: General report on activities
Matching	Requires a specified protocol	NO: Requirement for annual audit
Milestone		

Adding the Right Language to Proposals and Agreements

- Write a condition into our proposal
- Consider a condition that syncs with our natural flow of work:
  - A matching funds requirements
  - A requirement that a certain certification or government approval be secured
  - A measurable performance threshold that must be met within a certain time
- Ask the grant administrator to attach a condition to the agreement

These are all valid strategies for managing when contributions are booked

Crafting Flexible Proposal Narratives and Budgets

- Write the biggest proposal you can
- Engage funders in the work of your entire organization
- Describe a wide-range of projects in your proposal

Be Artful of What You Ask For

- Say straight up what you plan to use the money for
- Include all of your programs or as many as possible
- Tie use of funds to the way you already do business
- Always write towards your outcomes

Shaping Your Ask

- We may have been restricting ourselves
- Understand the accounting
- Craft narratives and budgets purposefully
  - full-cost budgets
  - deliverable-based budgets
  - purposefully including conditions
- We can control how restrictions behave

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Questions?

Jacqueline Eckman, CPA
Principal
jackie.eckman@CLAconnect.com
(602) 604-3538

Curtis Klotz, CPA
Director of Nonprofit Innovation
curtis.klotz@CLAconnect.com
(612) 379- 3189