



**School's Out™
Washington**

Grant & Project Based Accounting Toolkit

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Collaborative Partners Initiative

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GRANT AND PROJECT BASED ACCOUNTING

What is grant accounting?

Grant accounting for nonprofits is a method of recording and monitoring sponsored grants in your accounting system.

When managing and tracking grants it is a best practice to ensure that grant funds are tracked separately from other organizational funds. This is a requirement for any organization that is receiving federal grant funds. This tracking system can be set up in the nonprofit organization's financial management system. The system for tracking grants should also list the grants individually.

When tracking grant expenditures, nonprofits may be using cash or accrual methods to report their transactions on the grant.

Cash accounting focuses on reporting transactions in the period in which they took place. Smaller nonprofit organizations with no staff or programs tend to use cash accounting methods. **Accrual accounting** reports income and expenses in the duration in which they are earned and incurred. Organizations with larger amounts of funding, paid staff, and donor gifts should follow the accrual accounting methods.

GRANT ACCOUNTING BEST PRACTICES

The following are some best practices that all nonprofit leaders should follow when accounting for grant funds:

Make Sure Your Team Is on The Same Page

- Set clear and consistent expectations with your team when it comes to accounting for grant funds. This means that everyone should understand the procedures, deadlines, and any other expectations related to accounting for grants.
- Establishing clear roles and communication protocols can help ensure that all team members are in alignment when it comes to grant accounting.

Put The Necessary Controls In Place

- Accounting for grants should be approached with an abundance of caution.
- Establishing sound internal controls is essential for ensuring the financial security, accuracy, and completeness of your records related to grants.

- This includes having a separate bank account for grant funds, segregating duties among different team members, and having adequate documentation of all grant-related transactions.

Track Expenses Diligently

- When accounting for grants, it is important to track expenses diligently. This means having effective systems and processes in place for tracking grant expenditures, documenting grant-related activities, and making sure all expenses are properly classified.
- Doing this ensures that you can demonstrate compliance with grant requirements and provides a clear audit trail for any future reviews.
- Develop strong financial reporting procedures.
- An efficient tracking and reporting system is a must-have to ensure all accuracy and compliance when accounting for grants. Think routine summary reports, budget vs. actual reports, and variance analysis—all of these can help your team identify any discrepancies or issues related to grant accounting.

Keep Up with Changing Compliance Rules

- Grant accounting can be complicated, and regulations are always changing. It is important to stay on top of any new compliance regulations by regularly reviewing the grant agreement, monitoring any developments in the industry, and proactively addressing potential issues.
- If you don't have sufficient internal capacity and resources, you may want to consider hiring a nonprofit accounting professional to help manage your grant accounting.

Comply With All Applicable Laws And Regulations

- It is important to keep in mind that grant funds must be used for their intended purpose and in accordance with all applicable laws and regulations. Grants should not be used in any way that could be perceived as fraudulent or unethical. As the grant recipient, you are responsible for understanding and following all applicable laws and regulations.

Be Transparent In All Financial Matters Related To The Grant

- Transparency is key when it comes to grant accounting. Make sure that your team is open and responsive to questions related to the grant account. Provide regular

updates to the grantor and be sure to document all decisions related to the use of grant funds.

Conduct Regular Audits

- Regular financial audits can help ensure the accuracy of your financials, determine your fiscal health and compliance, and identify any potential issues.
- Having an independent audit team review your records related to the grant can help protect your organization from any unforeseen problems. These audits can also help identify opportunities, such as potential areas of cost savings.
- If your organization has received and expended more than \$750,000 in federal funds in a fiscal year, your organization may be required to have a Single Audit. This resource from Clark Nuber provides a great resource on [how to prepare your organization for this audit](#).

MAIN CHALLENGES OF GRANT ACCOUNTING

Grant accounting can be challenging, especially for smaller organizations with limited resources. Some of the main challenges that organizations may face include:

- Keeping up with changing grant regulations and compliance requirements
- Staying organized when dealing with multiple grants from different sources
- Meeting reporting deadlines and ensuring the accuracy of reports
- Differentiating between grants and other sources of income
- Tracking expenditures against budgeted amounts
- Understanding accounting rules, such as those related to matching funds, split funding, and indirect costs
- Knowing which expenses are allowable under the grant
- Managing cash flow during long grant cycles

These challenges can be daunting, but proper grant accounting practices can help organizations overcome them and ensure successful grant management. With the right processes in place, your organization can benefit from increased accountability and transparency, improved grant performance, and more efficient use of funds.

Financial Management and Accounting Tools

Sound financial management of grant funds is a must have practice for any nonprofit organization. In this section, we share some of the federal requirements on how to manage federally funded awards. Knowing of and establishing policies and procedures that adhere to the Federal guidelines is a good way for a nonprofit organization to show fiscal responsibility and oversight of all grant funds.

If your organization is managing Federal funds, there are specific requirements your organization's financial management system must meet.

Per [§200.302 Financial management](#) of the Uniform Guidance, the financial management system of the award recipient must include:

- Identification of Federal awards received and expended and the Federal program under which they were received, including title and number, the Federal award identification number and year, and the name of the Federal agency
- Accurate, current, and complete disclosure of the financial results of each award
- Records that identify the source and application of funds for activities under the award, including authorizations, financial obligations, unobligated balances, assets, expenditures, and income and interest, supported by source documentation
- Control over and accountability for funds, property, and other assets
- Comparison of expenditures with budget amounts for each award
- Written procedures for meeting [Federal payment requirements](#)

QuickBooks Best Practices

Many nonprofit organizations use QuickBooks is used to manage finances. The following are some best practices for nonprofit organizations using QuickBooks:

Make sure QuickBooks is right for your organization.

- QuickBooks is the most popular accounting software for small businesses including small nonprofits, but it is not right for everyone. If your organization has two entities (such as a c3 and a c4) QuickBooks will not work for you. If you have inventory that needs to be tracked QuickBooks will not work for you.
- Get a subscription level that is right for your organization.

- QuickBooks offers a variety of subscription levels, and it is easy to try to save money and just choose the lowest level. However, it is important to think long term. As your organization grows you will need to file IRS form 990 which will require tracking of functional expenses via the use of classes. If your organization receives grants, you will need a way to track those grants such as QuickBooks Projects and you may want to integrate your payroll and timesheets with QuickBooks Projects. So, plan ahead because changing from one subscription level to another and adding services is more difficult than setting up your software with those services from the beginning.

Choose an accounting method that will grow with your organization.

- Small nonprofit organizations often begin by using the Cash Basis of accounting as their limited funding requires them to know how much money they have at any given point in time. Accrual accounting is generally (although not always) a superior method to use. Accrual accounting which recognizes income and expenses when a transaction occurs regardless of when the cash is received or paid out is the method used for Generally Accepted Accounting Principles (GAAP) financial statements which likely will be required if an organization expects to receive significant external funding. Make sure that you have set your default method in QuickBooks to the method that you have selected, and that this method is also reflected on your 990 tax return.

Establish Bank and Credit Card Fees.

- QuickBooks can directly link to your bank and credit card accounts so that transactions are automatically downloaded from your bank and/or credit card account to QuickBooks. Once the transactions are downloaded the bookkeeper can place each transaction in its proper General Ledger. This feature saves a lot of time and is a must have for QuickBooks subscribers.

Enter your Budget into QuickBooks.

- Many organizations keep their budget in external spreadsheets and do not enter them into QuickBooks. QuickBooks integrates with almost anything so it should be seamless to upload your Budget into QuickBooks. This will save time (and reduce the chance for error) by being able to run budget to actual reports directly from QuickBooks.

Use the available learning resources.

- With QuickBooks being one of the most popular accounting options for small businesses there is a plethora of options available to learn all the bells and whistles that QuickBooks has to offer. QuickBooks has its own customer service for its

clients via phone, chat or email. In addition, QuickBooks has a robust user community that can provide all kinds of tips and expert advice. You can also find videos on how to do almost anything you can think of in QuickBooks on YouTube and there are even shorts on apps like TikTok that can help grow your QuickBooks knowledge.

Hire knowledgeable accounting staff.

- It is common, particularly in small nonprofit organizations, for the accounting function to be merged with other functions such as the fundraising database person, the administrative assistant, or in some cases the Executive Director. However, if these individuals do not have an accounting background, they can set up the software incorrectly, enter data incorrectly, or categorize things incorrectly. Once this has been done it is incredibly difficult to go back and fix.
- Hire or contact with individuals or organizations that have the knowledge to set up and properly use QuickBooks or if that is not in your budget at least have a knowledgeable individual monitor the usage on a regular basis so that these problems can be mitigated.

Resources

The National Grant Management Association ([\(NGMA\)](#) provides several resources related to grant accounting and is an excellent resource for continued professional development.

[Accounting 101](#)

[Generally Accepted Accounting Principles \(GAAP\)](#)

[Cash vs. Accrual Accounting Methods](#)

[Reconciling Accounts](#)

[Petty Cash](#)

[Accounts Receivable](#)

[Accounts Payable](#)

[Fixed Assets](#)

[Inventory](#)

[Payroll](#)

[Line of Credit](#)

[Sample Amortization Schedule](#)