

- Grantor does not get direct benefit and grantee is not expected to payback if utilised for the intended purpose
- Grant comes in different forms from different sources-govt (grant-in-aid), retail, corporate, foundation
- Are awarded directly or through a competitive process

Exchange transaction vs Grant

1. Exchange transaction (as per GST Act) involves:
 - Supply of goods and services
 - Consideration
 - In course of furtherance of business
2. Grant is not exchange transaction since there are
 - No specific beneficiaries
 - Nothing in return from beneficiaries or benefit derived by grantee
 - Not for furtherance of business

Understanding above for grant contract is crucial otherwise contributions maybe considered as exchange transactions inviting GST and TDS implications and also charitable status maybe jeopardised

Grant Management

1. Involves two key players-
 - Grantmakers-grantor/donor
 - Grantseekers-grantee/donee
2. Grant management is a system that includes identifying, applying for and securing grants, adhering to grant conditions, evaluating outcomes.
3. Grant management process in grant management system (GMS) is the grant management lifecycle

Grantmaker vs. grantseeker



Grantmaker

Responsible for **creating grants** and includes setting strategic goals, evaluating regulations, and awarding grants.



Grantseeker

Responsible for **seeking grants** and involves identifying needs, collecting internal information, and applying for grants.

The grant management process



Grant Management Life Cycle

1. Pre award

- Planning-need identification, SWOT, due diligence preparatory etc
- Scout Funding opportunity
- Grant application & review-eligibility and Qualification

2. Award

- Award Negotiation
- Award Decision
- Award Notification/Contract

3. Post Award

- fund request-advance, reimbursement etc,
- Implementation
- Reporting-program and finance
- Post award amendment-key changes and approval, budget realignment, NCE
- Performance/impact
- Closeout
- Reapplication

Principles of grant management

- Accountability, Transparency & Trust for grant funds
- Efficiency & Effectiveness with grant funds
- Compliance with laws of the land
- Adherence to terms and conditions of Grant Agreement
- Necessary Internal controls in place
- Communication & Timely Reporting-narrative and financial as per grant contract

Pre-requisites for robust grant management system

1. Policies & Procedures (Finance & HR)-ensuring strong internal control environment
2. Accounting-ICAI Technical Guide on accounting for NPOs (Jan 2022)-framework
 - Fund based accounting
 - Accrual basis of accounting
 - Maintenance of books of accounts and other records
 - Accounting Standards as framework for recording, reporting and presenting in financial statements
3. Segregation of duties-checks and balances, dedicated finance staff
4. Encourage audit and assurance-risk mitigation

Fund Accounting

NGOs follow Fund Accounting for managing grants

- Fund accounting is an accounting system for recording and tracking project resources (fund) whose use is limited/restricted by specific conditions by donor through a grant contract
- This accounting system emphasizes accountability/productivity over profitability which is the accounting basis for for-profits

Features:

- Separate funds (buckets/compartments)
- Restriction on use
- separate budget established for each fund/project and income credited and expenses debited from the fund
- Transparency
- software for recording
- good internal controls
- monitoring and Reporting mechanisms ensures fund accounting

Type of funds for NPOs

Grant word is not comprehensively defined in Indian laws, referred to as

Voluntary contribution/donation (VC) in Income Tax law. FC under FCRA and CSR fund under CSR law

ICAI has classified funds for NPOs in its Technical Guide on Accounting for NPOs:

1. Unrestricted funds-Funds with no specific restrictions on use (purpose)/time
 - Corpus (acknowledged in IT law)-non-refundable, non reducible, reinvestment obligation.
Corpus only
 - when specific donor direction that it be treated as corpus by donor

- not income but capital per IT Act
- to be invested in section 11(5) modes of investment
- considered application when replenished
- not application if given to another charity.
- Corpus income shown in I&E
- Donations i.e. no obligations attached, a gift
- Designated/earmarked funds-appropriated and set aside for specific purpose/future, self imposed by management and not binding in law
- General funds-surplus/deficit transferred from I&E which are not designated. Free reserves

2. Restricted funds: funds with conditions/restrictions

- Project/program grants-to be utilized as per terms and conditions of award, Restriction-by purpose and by time. There could be other conditions/restrictions. Principle of fund based accounting
- Endowment: fund amount cannot be utilized, only income utilized for general/specific purpose as per donor stipulation. The recipient owns it but does not control it.
- Restricted funds maybe:
 - Permanent restriction
 - Temporary restriction: restricts use for a certain period or meeting objectives after which it becomes unrestricted.

Format of financial statements as per ICAI

BALANCE SHEET AS AT _____			
SOURCES OF FUNDS (LIABILITIES)	Schedule	Current Year	Previous Year
Unrestricted funds			
Corpus Fund/General Fund/Designated Funds			

- Restricted funds: Unutilised Grants (Deferred Revenue), Endowment			
- Loans/Borrowings: Secured/Unsecured			
- Current liabilities & provisions			
TOTAL			
Application of Funds (Assets)			
- Fixed assets: Tangible Assets/Intangible Assets/Capital Work- In-Progress			
- Investments: Long Term/Short term			
- Current assets: Loans, Advances, & deposits. Grant Receivable			
TOTAL			
Significant Accounting Policies and Notes on Accounts			

Net Assets

- In NPOs, net assets is like net worth (share capital+reserves & surplus) in case of for profit entities
- Net assets=Total Assets-Total Liabilities
- Net assets means owner funds (capital) although there are no owners in charitable institutions generally

- In an NPO, net assets mainly include corpus and general funds

Format of financial statements as per ICAI

Name of Entity_____			
Income & expenditure account for the period/year ended_____			
Income Schedule	Schedule	Current Year	Previous Year
Grants & Donations			
Other Income-rent, interest, incidental business Income, Fee & Subscription.			
Total (A)			
Expenditure			
Program Exp			
Administrative and General Expenses, Finance costs			
Depreciation & Amortisation Expenses			
Total (B)			
Excess of Income over Expenditure (Surplus) or excess of Exp over Income (Deficit)(A-B) (Net Income in for profit entity)			

Balance Being Surplus (Deficit) Carried to Balance Sheet- General Fund, Transfer to Designated fund, Building fund/ Others (specify)			
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Accounting for grant recognition by NGOs in India

Practise followed as per convention-no legal directive:

Option 1: Gross grant treated as income

Option 2: Gross grant routed through Balance Sheet only-asset and liability side settled

Option 3: Grant treated as income to the extent of expenditure while unutilised grant is a liability-- hybrid method

- AS 9 mentions income recognition to the extent of expenditure for grants applicable if there is business/commerce etc
- Follow the principle of prudence in selecting the option for recognition.

Recipient, Sub-recipient and Vendor

Recipient is the organization receiving the grant. A recipient is sometimes called the Prime recipient because it has full responsibility for grant funds. The document evidencing this arrangement is grant contract

Sub-recipient is involved in substantive activities of the award project. The recipient passes on some or all of its duties to the sub-recipient called sub award. All the terms and conditions from the grant award flow down to sub-recipients through a document evidencing it called sub grant contract

Vendor/service provider provides goods/services to the recipient so the recipient can accomplish the project's purposes. Selected terms and conditions might be passed through to the vendor. The document evidencing is a goods/service contract

Cost-Key concepts

- Cost-amount spent to acquire an asset
- Expense-amount spent on regular operations

Classification of expense for NPOs

- Natural expense head—**WHAT** (type of expense) the funds are being spent on- salary, rent, hotel accommodation etc
 - The natural expenses are grouped into group heads like HR cost, Travel, capital cost, office exp, legal & professional etc
 - Group head-Travel-natural expense-conveyance, airfare, meals, accommodation etc
 - Group head-HR-natural expenses-salary, HRA, PF, Gratuity
- Furcation expense head—**WHY** (purpose of expense) the funds are being spent. These include
 - Program cost (program implementation, MEL)
 - Support cost (Accounting, Admin, Fund raising)

NPOs should follow functional expense head for presenting reports, that is what is the basis for their constitution and work. Broadly the functional heads are two-Program/service delivery and Support/Admin & General

Costs for a project for NGO

1. Direct costs (100% direct traceability to a program/support function) to benefit the beneficiary as per project design. No cost if no project.
2. Common/Shared costs-benefit multiple projects
 - shared cost apportionment based on time, space, no of employees/beneficiaries/no of project locations

Understanding and computing direct and shared cost crucial for correct and realistic budget formulation

Apportionment method and share of common cost included in common cost policy

Common cost be reviewed every year within the purview of common cost policy

1. Total cost for a project:
 - a. Direct cost+
 - b. Common Direct cost
 - c. Shared cost apportioned to the project
2. Institutional/Management cost/indirect cost if permitted basis donor grant management policy to address contingency/create a reserve

Other types of cost

Capital & Revenue cost:

Capital Costs: Capital costs are one-time fixed assets purchases that will be used for revenue generation over a longer period- more than one year.

Revenue Costs: are referred to as operating expenses are short-term expenses that are used in running the daily business operations.

Fixed and Variable Costs:

Fixed cost is one that does not change in total within a reasonable range of activity. Since the fixed cost remains constant in total, the fixed cost per unit of activity decreases when the volume increases and vice versa.

Variable cost or expense is where the total cost changes in proportion to changes in volume or activity.

- Historical cost: original cost of asset when it was purchased.
- Sunk cost: money spent that cannot be recovered.
- Marginal cost: change usually decrease in the cost of producing one more unit or serving one more customer.
- Opportunity cost: value of next best alternatives when taking a decision given the resource constraint.

Cost Principles in grant budgeting for NPOs

Costs budgeted for a project grant should be

- **Allowable cost:** costs which are not subject to any restrictions/limitations in the grant award.
- **Allocable cost:** costs which are incurred specifically for the attainment of the objective of the grant.
- **Reasonable cost:** cost which is generally recognized as necessary to be incurred by a prudent person in the conduct of normal business
- **Consistent:** cost applied in same fashion throughout the grant
- **Unallowable cost:** those costs that cannot be incurred and paid under the grant.

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