

# Pre-Award Financial Review of Nongovernmental Organizations

Minnesota Department of Administration

Office of Grants Management, Policy 08-06

Curriculum developed by the Office of Grants Management, the  
Department of Natural Resources, and the Department of Human Services

# Who We Are

The mission of the Admin's Office of Grants Management is to standardize, streamline and improve state grant-making practices, as well as to increase public information about state grant opportunities.

Find out more at  
[Office of Grants Management](#)

# Training team:

## Naomi Munzner

- \* Director, Office of Grants Management
- \* Provides policy leadership and direction to promote consistent grants administration between state agencies, funders, and grantees.
- \* Coordinates, develops and shares effective resources to support standardized, streamlined, and improved state grant-making practice.

# Training team:

## Amanda Graeber

- \* Minnesota Department of Natural Resources
- \* Office of Management and Budget Services (OMBS)  
Grants Manager
- \* The Grants Unit within OMBS coordinates and assists with federal grants and legislatively mandated pass-through grants. It is also responsible for providing department-wide oversight and guidance through grant policies and procedures.



# Training team:

## Nicole Medeiros

- \* Minnesota Department of Human Service
- \* Internal Auditor
- \* Prior corporate tax auditor with MN Department of Revenue

## Mark Allan, CPA, CFE

- \* Minnesota Department of Human Services
- \* Internal Auditor
- \* Prior audit work at DNR and OLA



Minnesota Department of **Human Services**

# Training team:

## Jonah Anderson

- \* Contractor
- \* Bachelor's in Accounting
- \* 8 years accounting experience, over 4 with non-profits

# Today's Presentation Objectives

- Build knowledge on the minimum requirements of [grants\\_policy\\_08-06](#)
- Build confidence, comfort, and skill capacity with state grants staff
- Provide a baseline understanding of what to look for when reviewing financial non-profit documents

# State policy requires that nongovernmental organizations demonstrate financial stability

- \* Before awarding a grant of over \$25,000 to a nongovernmental organization, state agencies must assess a recent financial statement from that organization.
- \* Items of **significant concern** must be discussed and resolved before the grant is awarded.

## 08-06 policy requirements

# State agency staff must review the following for grant applicants based on their annual income:

- Under \$50,000 (or not in existence long enough to have completed IRS Form 990 or an audit): most recent board-reviewed financial statements
- \$50,000-\$750,000: most recent IRS Form 990
- Over \$750,000: most recent certified financial audit

## 08-06 policy requirements

# One Perspective on Implementing 08-06



\* "Before awarding a grant of over \$25,000 to a nongovernmental organization (NGO), Minnesota state agencies must assess a recent financial statement from that organization. *Items of significant concern* must be discussed with the grant applicant and resolved to the satisfaction of state agency staff before a grant is awarded."



What does the policy  
require?

- \* This policy applies to competitive and sole/single source grant review processes.
- \* Legislatively-named and formula grants processes are not subject to this policy.
- \* This policy also does not apply to grants to individuals or to bonding and capital grants.



**When does the policy  
apply?**

\*First, state agency staff must review the following for grant applicants based on their annual income:

- Under \$50,000 (or not in existence long enough to have completed IRS Form 990 or an audit): most recent board-reviewed financial statements
- \$50,000-\$750,000: most recent IRS Form 990
- Over \$750,000: most recent certified financial audit



# What do I have to do?

\*State agency staff must:

- *Assure that the organization is financially stable,*
- Determine whether the grant applicant has a *significant operating deficit* or a *deficit in unrestricted net assets,*
- Discuss any concerns about information contained in the financial documents with the applicant before awarding a grant.
- Document (and keep in the grant file) which financial statement they reviewed and their rationale for awarding the grant.



## What then?

\*That's okay! You are not alone. Most of us aren't - and we don't have to be!

\*This policy requires a financial review - not an audit.



**What if I'm not an  
accountant or auditor?**

- \* Large, matrix organization
- \* Many locations across the state
- \* Decentralized grant programs across several divisions
- \* A relatively new agency-wide grants unit that developed an equally new agency-wide grants management policy



## DNR Case Study

- \* Develop grant-making and grant administration guidance for all DNR grant staff based on OGM grant policies
- \* Add departmentally relevant specificity to policies provided by OGM
- \* Allow for necessary and appropriate customization by individual grant program as needed
- \* Help DNR grant staff continue to do their job and do it well



# The Overall Goal

- \* Work with internal audit (specifically an internal audit staff member who is a forensic accountant) to describe terms/expectations that might be unfamiliar to grants staff such as:
  - Identifying an IRS Form 990, Board-reviewed financial statements, and certified financial audits
  - Recognizing items of significant concern
  - Assuring the organization is financially stable
  - Determining whether there is a significant operating deficit or a deficit in unrestricted net assets

## The Strategy, as it relates to 08-06



- \* Creation of a Financial Review Procedure that unpacks terms/expectations that may be unfamiliar
- \* Creation of a Financial Review Form to streamline documentation and substantiate completion of the financial review in the grant file



## The Outcomes



## Minnesota Department of Natural Resources Financial Review Form

*It is the [policy of the State of Minnesota](#) to make grants to nongovernmental organizations that are financially stable enough to carry out the purpose of the grant. Before awarding a grant of over \$25,000 to a nongovernmental organization, Minnesota state agencies must assess a recent financial statement from that organization. Items of significant concern must be discussed with the grant applicant and resolved to the satisfaction of state agency staff before a grant is awarded.*

*This form should be completed to document this process and kept in the grant file for the current year plus three additional years as well as scanned and saved in the following location on the DNR I drive: I:\OMB\Budget & Financial Analysis Unit\Grant Administration\Financial Review Forms. Please save the form in the folder for the year the review was completed.*

<b>Grantee</b>	<b>Grant Project Name</b>
<b>Grant Amount</b>	<b>Grant Funding Source*</b>

\*This policy does not apply to legislatively-named, formula, bonding, or capital grants. It also does not apply to grants to individuals.

1. Financial Statement Reviewed:

- Most Recent Board-Reviewed Internal Financial Statement  
*(Grant applicants with annual income of under \$50,000 or who have not been in existence long enough to have a completed IRS Form 990 or audit)*
- IRS Form 990  
*(Grant applicants with total annual revenue of \$50,000-\$750,000)*
- Certified Financial Audit  
*(Grant applicants with total annual revenue of over \$750,000)*

# Financial Review Form

Nicole Medeiros

- \* Minnesota Department of Human Service
- \* Internal Auditor
- \* Prior corporate tax auditor with MN Department of Revenue

Mark Allan, CPA, CFE

- \* Minnesota Department of Human Services
- \* Internal Auditor
- \* Prior audit work at DNR and OLA

# Advice From Auditors



Minnesota Department of **Human Services**

- \* The Financial Review Procedure includes a Financial Review 101 section with answers to questions such as:
  - What is a “significant operating deficit” and how do I find out if an organization has one?
  - What is an “unrestricted net asset deficit” and how do I find out if an organization has one?
  - What are some examples of “other concerns about financial stability” and how do I look for them?
  - What do I do if I have concerns following a review of an organization’s financials?



# Financial Review 101

# Operating Deficit-Statement of Activities

\* If an operating deficit is detected in an annual statement, it would be important to review prior year(s) information to determine whether there is a pattern of deficit spending that could signify future cash flow issues for the grantee.

- Information about operating deficits will be found in the portion of the financials called "Statement of Activities".
- Your professional judgment should be used to determine whether the deficit is significant.

## THE GEDDY LEE FOUNDATION CONSOLIDATED STATEMENTS OF ACTIVITIES For the Year Ending 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Contributions	132,748	25,454	52,452	210,654
Government Grants	765,415	481,504	-	1,246,919
Investment Income	6,245	-	3,200	9,445
Administrative Fees	12,874	-	-	12,874
<b>Total Revenues</b>	<b>917,282</b>	<b>506,958</b>	<b>55,652</b>	<b>1,479,892</b>
<b>EXPENSES</b>				
Salaries	561,785	-	-	561,785
Fringe	186,525	-	-	186,525
Occupancy	765,135	-	-	765,135
Consulting	352,448	-	-	352,448
Management and General	124,655	-	-	124,655
Fundraising	26,548	-	-	26,548
<b>Total Expenses</b>	<b>2,017,096</b>	<b>-</b>	<b>-</b>	<b>2,017,096</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,099,814)</b>	<b>506,958</b>	<b>55,652</b>	<b>(537,204)</b>
Net Assets at Beginning of Year	955,745	845,787	425,874	2,227,406
<b>NET ASSETS AT END OF YEAR</b>	<b>(144,069)</b>	<b>1,352,745</b>	<b>481,526</b>	<b>1,690,202</b>

# Statement of Financial Position

\*The “Statement of Financial Position” is an important resource to use. It reports the cumulative effect of all of an organization’s financial activity over the years and signals financial health or problems. Healthy organizations build up unrestricted net assets and maintain reasonable amounts of debt. Organizations with serious financial problems report diminishing or even negative (deficit) unrestricted net assets.

○As a rule of thumb, “yellow flags” are on the “Statement of Activities” and “red flags” are on the “Statement of Financial Position”.

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash	\$ 200,000	\$ 142,000
Accounts Receivable	120,000	65,000
Investments	755,000	700,000
Prepaid Expenses	15,000	13,000
Fixed Assets (net)	<u>220,000</u>	<u>40,000</u>
Total Assets	\$ 1,310,000	\$ 960,000
<b>Liabilities</b>		
Accounts Payable	\$ 75,000	\$ 60,000
Refundable Advances	20,000	0
Long Term Debt	<u>200,000</u>	<u>0</u>
Total Liabilities	\$ 295,000	\$ 60,000
<b>Net Assets</b>		
Unrestricted	\$ 395,000	\$ 300,000
Temporarily Restricted	45,000	0
Permanently Restricted	<u>645,000</u>	<u>600,000</u>
Total Net Assets	<u>\$1,015,000</u>	<u>\$ 900,000</u>
<b>Total Liabilities &amp; Net Assets</b>	\$1,310,000	\$ 960,000

# Unrestricted Net Assets

\* Unrestricted net assets are assets without donor-imposed restrictions. It can include assets such as cash, short-term investments, or other items readily converted to cash which can be used without restriction. Often times, this category is used to pay bills and keep the organization afloat.

- Unrestricted net asset information will be found in a section of the financials called "Statement of Financial Position".
- Again, your professional judgment should be used to determine whether the deficit is significant, but it is important to note that deficits in unrestricted net assets are of more importance/concern than operating deficits.

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash	\$ 200,000	\$ 142,000
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Investments	755,000	700,000
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Permanently Restricted	<u>645,000</u>	<u>600,000</u>
Total Net Assets	<u>\$ 1,015,000</u>	<u>\$ 900,000</u>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 1,310,000</b>	<b>\$ 960,000</b>

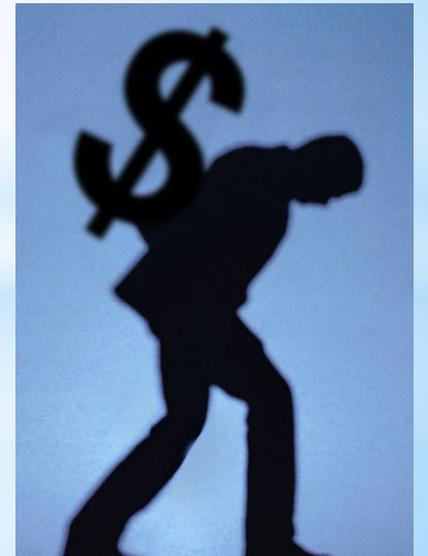
# Unrestricted Net Asset Deficit

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013

	2014	2013
<b>ASSETS</b>		
Cash and Cash Equivalents	5,570,104	5,942,714
Accrued Investment Income	389,150	330,424
Investments	1,094,546,156	969,248,936
Contributions Receivable	8,655,010	5,099,006
Program-Related Loans Receivable	2,435,442	2,473,673
Beneficial Interests in Perpetual Trusts	1,026,247	972,737
Other Assets	6,233,402	5,060,155
Total Assets	<u>1,118,855,511</u>	<u>989,127,645</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	10,735,366	1,365,636
Grants Payable	13,838,969	14,556,139
Income Beneficiaries Payable	13,884,668	13,811,665
Funds Held as Nonprofit Endowments	<u>144,246,128</u>	<u>124,419,090</u>
Total Liabilities	182,705,131	154,152,530
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	(500,042)	183,963,830
Field of Interest	14,000	94,459,680
Donor Advised	2,200	409,054,108
Donor Designated	-	55,530,627
Minority Interests	-	50,288,756
Total Unrestricted	<u>(483,842)</u>	<u>793,297,001</u>
Temporarily Restricted	514,694,295	19,943,313
Permanently Restricted	<u>421,939,927</u>	<u>21,734,801</u>
Total Net Assets	<u>936,150,380</u>	<u>834,975,115</u>
Total Liabilities and Net Assets	<u>1,118,855,511</u>	<u>989,127,645</u>

# Other Indicators of Financial Health-Debt Levels

- \* Debt levels are another indicator of an organization's financial health.
  - Information about debt would be found in the "Statement of Financial Position" under the "Liabilities" section.
  - The debt ratio is a measure of an organization's debt burden:  $\text{Debt ratio} = \text{total liabilities} / \text{total unrestricted net assets}$
  - There is no one magic number that signifies a healthy debt load - every organization will have different dynamics. If you have spotted some concerning items in the financial statements, a look at the direction of the debt ratio would be prudent.
  - Look at the ratio across a few years - if the number is increasing, this is a bad sign. Conversely, if the number is getting smaller, this is a sign that the organization's health could be getting stronger.



**THE GEDDY LEE FOUNDATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

ASSETS	2014	2013
Cash and Cash Equivalents	5,570,104	5,942,714
Accrued Investment Income	389,150	330,424
Investments	1,094,546,156	969,248,936
Contributions Receivable	8,655,010	5,099,006
Program-Related Loans Receivable	2,435,442	2,473,673
Beneficial Interests in Perpetual Trusts	1,026,247	972,737
Other Assets	6,233,402	5,060,155
<b>Total Assets</b>	<b>1,118,855,511</b>	<b>1,148,965,205</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	50,735,366	1,365,636
Grants Payable	636,838,969	14,556,139
Income Beneficiaries Payable	13,884,668	13,811,665
Funds Held as Nonprofit Endowments	144,246,128	124,419,090
<b>Total Liabilities</b>	<b>845,705,131</b>	<b>154,152,530</b>
 <b>NET ASSETS</b>		
<b>Unrestricted:</b>		
Undesignated	53,340,021	183,963,830
Field of Interest	50,112,940	94,459,680
Donor Advised	-	409,054,108
Donor Designated	64,983,581	55,530,627
Minority Interests	55,389,409	50,288,756
<b>Total Unrestricted</b>	<b>223,825,951</b>	<b>793,297,001</b>
Temporarily Restricted	27,384,502	19,943,313
Permanently Restricted	21,939,927	21,734,801
<b>Total Net Assets</b>	<b>273,150,380</b>	<b>834,975,115</b>
<b>Total Liabilities and Net Assets</b>	<b>1,118,855,511</b>	<b>989,127,645</b>

Debt Load is the primary issue with  
this scenario.  
In 2013 it is 19%  
2014 it is 378%

**RPI**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2012**  
**(With Comparative Totals for 2011)**

	<b>2012</b>			<b>2011</b>
	Unrestricted	Temporarily Restricted	Total	
<b>Revenues and support:</b>				
Contributions	5,216	2,400	7,616	54,261
Goverrtment grants and contracts	923,994	-	923,994	1,054,528
Contract services	20,000	-	20,000	159,554
Rental income	142,045	-	142,045	129,501
Interest income	93	-	93	
<b>Total revenues and support</b>	<b>1,091,348</b>	<b>2,400</b>	<b>1,093,748</b>	<b>1,377,900</b>
<b>Expenses:</b>				
Program services	1,031,723	-	1,031,723	1,166,764
Management and general	170,561	-	170,561	146,762
Fundraising	9,892	-	9,892	11,318
<b>Total expenses</b>	<b>1,212,176</b>	<b>-</b>	<b>1,212,176</b>	<b>1,324,844</b>
<b>Change in net assets from operations</b>	<b>(120,828)</b>	<b>2,400</b>	<b>(118,428)</b>	<b>73,056</b>
Forgiveness of note payable	513,437	-	513,437	-
Loss on disposal of equipment	(4,539)	-	(4,539)	-
<b>Change in net assets</b>	<b>388,070</b>	<b>2,400</b>	<b>390,470</b>	<b>73,056</b>
<b>Net assets, beginning of year</b>	<b>60,909</b>	<b>8,652</b>	<b>69,561</b>	<b>150,660</b>
<b>Net assets, end of year</b>	<b>448,979</b>	<b>11,052</b>	<b>460,031</b>	<b>223,716</b>

The primary issue in this scenario is negative change in net assets from operations. While the change in net assets below is positive, the only reason this happened is due to a loan forgiveness.

**Tree House Community Center**  
*Consolidated Statements of Activities*  
*December 31, 2013 and 2014*

	2013			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Support</b>						
Contribution	5,000	1,000	6,000	14,000		14,000
Grants Receivable			-			
Rose Family Foundation	12,000		12,000	4,000		4,000
River Mile Programs	2,000		2,000	2,000		2,000
Tree Lovers	1,000		1,000	1,000		1,000
Run and Save	6,000		6,000	2,500		2,500
Other Grants			-			
State Street	1,000		1,000	12,500		12,500
3m	2,000		2,000	7,000		7,000
US Bank	2,000		2,000	5,000		5,000
<i>Total Grant Income</i>	<u>26,000</u>		<u>26,000</u>	<u>34,000</u>		<u>34,000</u>
<b>Total Revenues and Support</b>	<u>31,000</u>	<u>1,000</u>	<u>32,000</u>	<u>48,000</u>		<u>48,000</u>
<b>Expenses:</b>						
Program Services	5,000		5,000	7,500		7,500
Salaries	7,500		7,500	15,000		15,000
Management	12,500		12,500	20,000		20,000
Occupancy	5,000		5,000	12,000		12,000
<b>Total Expenses:</b>	<u>30,000</u>		<u>30,000</u>	<u>54,500</u>		<u>54,500</u>
<b>Total Change in Net Assets</b>	<u>1,000</u>	<u>1,000</u>	<u>2,000</u>	<u>(6,500)</u>	<u>-</u>	<u>(6,500)</u>
Net Assets at Beginning of year	40,900	-	40,900	10,100		10,100
Net Assets at end of Year	<u>41,900</u>	<u>1,000</u>	<u>42,900</u>	<u>3,600</u>	<u>-</u>	<u>3,600</u>

Take a close look at the relationship between declining revenues and increasing expenses. In 2014, the organization shows a negative net change in Net Assets.

**Tree House Community Center**  
*Consolidated Statements of Financial Position*  
 December 31, 2013 and 2014

Asset	2013	2014
Cash and Cash Equivalents	15,000	5,500
Grants Receivable	25,900	10,400
Investments	25,000	7,500
Fixed Assets	7,500	7,500
<b>Total Assets</b>	<b>73,400</b>	<b>30,900</b>
<b>Liabilities and NET Assets</b>		
<b>Liabilities</b>		
Accounts Payable	7,500	4,800
Notes Payable	12,500	12,500
Grants Payable	7,500	7,500
Other Liabilities	3,000	2,500
<b>Total liabilities</b>	<b>30,500</b>	<b>27,300</b>
<b>Net Assets</b>		
Unrestricted		
<i>Total Unrestricted</i>	<b>41,900</b>	<b>3,600</b>
Temporarily Restricted	1,000	
Permanently Restricted		
<b>Total Net Assets</b>	<b>42,900</b>	<b>3,600</b>
<b>Total Liabilities and Net Assets</b>	<b>73,400</b>	<b>30,900</b>

Cash and grant receivables (incoming grant payments) are declining. These are short term assets used to keep organization afloat.

Debt load is increasing. In 2013 it is 73%  
 2014 it is 758%

# Other Considerations

- \* Inconsistent financial presentations
- \* Length of time to receive requested information
- \* Do not hesitate to ask for board meeting minutes and the organization's bylaws
- \* Determine if the board meets according to bylaws
- \* Determine if the board takes active role in monitoring finances
- \* Get a second opinion (internal audit)

Jonah Anderson

- \* Contractor

- \* Bachelor's in Accounting

- \* 8 years accounting experience, over 4 with non-profits

# Advice from an Accountant

Form <b>990</b>	<b>Return of Organization Exempt From Income Tax</b>		OMB No. 1545-0047
Department of the Treasury Internal Revenue Service	Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)		<b>2014</b>
	▶ Do not enter social security numbers on this form as it may be made public. ▶ Information about Form 990 and its instructions is at <a href="http://www.irs.gov/form990">www.irs.gov/form990</a> .		<b>Open to Public Inspection</b>
<b>A</b>	For the 2014 calendar year, or tax year beginning _____, 2014, and ending _____, 20_____		
<b>B</b>	Check if applicable:	<b>C</b> Name of organization	<b>D</b> Employer identification number
<input type="checkbox"/>	Address change	Doing business as	
<input type="checkbox"/>	Name change	Number and street (or P.O. box if mail is not delivered to street address)	<b>E</b> Telephone number
<input type="checkbox"/>	Initial return	Room/suite	
<input type="checkbox"/>	Final return/terminated	City or town, state or province, country, and ZIP or foreign postal code	
<input type="checkbox"/>	Amended return		<b>G</b> Gross receipts \$ _____
<input type="checkbox"/>	Application pending	<b>F</b> Name and address of principal officer:	<b>H(a)</b> Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No
			<b>H(b)</b> Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No
<b>I</b>	Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		If "No," attach a list. (see instructions)
<b>J</b>	Website: ▶		<b>H(c)</b> Group exemption number ▶
<b>K</b>	Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶	<b>L</b> Year of formation:	<b>M</b> State of legal domicile:
<b>Part I Summary</b>			
<b>1</b>	Briefly describe the organization's mission or most significant activities: _____		
	_____		
	_____		
	_____		
	_____		
	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 95% of its net assets		

Form 990 is the Internal Revenue Service (IRS) form called Return of Organization Exempt from Income Tax. This federal form must be filed annually by tax exempt organizations. However, some organizations such as churches are exempt from filing, and small organizations are allowed to file Form 990-EZ. Form 990 is also useful for understanding aspects of an organization's mission, programs, and finances.

# Today's purpose

- \* Gain exposure to the 990 form
- \* Gain comfort with high level data provided within
- \* Learn a few key areas to look at on the 990 form

990 Review				
<b>Admin Expenses</b>	<b>Column A</b>	<b>Column B</b>		
Page 10, Line 25 (total functional expenses)	\$ 3,084,799.00	\$ 1,082,654.00	35%	spent on programs and services
<b>Executive Pay</b>	<b>Title</b>	<b>Compensation</b>		
Page 7	President	\$ 55,666.00		
<b>Growth</b>	<b>Prior Year</b>	<b>Current Year</b>		
page 1, line 12 (Total Revenue)	\$ 2,673,789.00	\$ 3,090,971.00	16%	Revenue has increased
page 1, line 18 (Total Expenses)	\$ 2,701,546.00	\$ 3,084,799.00	14%	Expenses have increased
<b>Types of Support</b>	<b>Amount</b>	<b>Percentage of Support</b>		
page 9, 1f All other contributions,gifts,grants	3090971	100%		
<b>Additional fundraising costs</b>	<b>Line 25</b>	<b>Line 26</b>		
Part IX, column (B)	\$ 1,082,654.00	\$ 981,049.00	91%	spent on fundraising within program costs

- \* The organization should spend no more than 25% of their total expenses on administrative overhead and fundraising costs combined.
- \* To determine the percentage going to programs for the charity you are reviewing, scroll to page 10 (Statement of Functional Expenses), find Line 25 (total functional expenses). Divide column B (program services) by column A (total expenses).

<b>23</b>	Insurance . . . . .				
<b>24</b>	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
<b>a</b>	.....				
<b>b</b>	.....				
<b>c</b>	.....				
<b>d</b>	.....				
<b>e</b>	All other expenses				
<b>25</b>	<b>Total functional expenses.</b> Add lines 1 through 24e				
<b>26</b>	<b>Joint costs.</b> Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) . . . . .				

\* Form 990

\* **Executive Pay:** Based on the analysis of thousands of mid to large charities in America - shows that the average CEO compensation is about \$130,000

**Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response or note to any line in this Part VII

**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

**1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
(2)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			

\* On page 7 of the Form 990 (Compensation of Officers, Directors, etc.) organizations are required to report any current officers making over \$100,000 annually. Keep in mind that a variety of factors impact pay including geographic location, size of the organization, and type of work performed.

\* **Form 990**

- \* **Growth of Revenue and Program Expenses:** Determine if the entity you are reviewing is expanding or shrinking over time
- \* You can quickly do this by comparing page 1, line 12 (Total Revenue) of the current year with the prior year (s), then do the same with the Total Expenses- page 1, line 18. While the growth doesn't need to be dramatic, charities that fail to grow at least at the rate of inflation are in fact shrinking and thus cutting the very programs that they want to support.

Part I Summary				
Activities & Governance	1	Briefly describe the organization's mission or most significant activities: _____		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
	3	Number of voting members of the governing body (Part VI, line 1a) . . . . .	3	
	4	Number of independent voting members of the governing body (Part VI, line 1b) . . . . .	4	
	5	Total number of individuals employed in calendar year 2014 (Part V, line 2a) . . . . .	5	
	6	Total number of volunteers (estimate if necessary) . . . . .	6	
	7a	Total unrelated business revenue from Part VIII, column (C), line 12 . . . . .	7a	
	b	Net unrelated business taxable income from Form 990-T, line 34 . . . . .	7b	
Revenue	8	Contributions and grants (Part VIII, line 1h) . . . . .	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g) . . . . .		
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d) . . . . .		
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) . . . . .		
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3) . . . . .		
	14	Benefits paid to or for members (Part IX, column (A), line 4) . . . . .		
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a	Professional fundraising fees (Part IX, column (A), line 11e) . . . . .		
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶ _____		
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) . . . . .		
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25) . . . . .		
19	Revenue less expenses. Subtract line 18 from line 12 . . . . .			

\* Form 990

\* **Types of Support:** Take a look at lines 1a through 1g (on page 9, "Statement of Revenue") to learn about a nonprofit's funding sources. Some charities rely heavily on membership dues (line 1b), or government support (line 1e) while others survive almost solely on individual contributions and fundraisers (line 1f; 1c) and still others depend on program service revenue (line 2g).

Form 990 (2014)

**Part VIII Statement of Revenue**  
Check if Schedule O contains a response or note to any line in this Part VIII .

			(A) Total revenue	(B) Related or exempt function revenue
<b>Contributions, Gifts, Grants and Other Similar Amounts</b>	<b>1a</b>	Federated campaigns . . . . .	<b>1a</b>	
	<b>b</b>	Membership dues . . . . .	<b>1b</b>	
	<b>c</b>	Fundraising events . . . . .	<b>1c</b>	
	<b>d</b>	Related organizations . . . . .	<b>1d</b>	
	<b>e</b>	Government grants (contributions)	<b>1e</b>	
	<b>f</b>	All other contributions, gifts, grants, and similar amounts not included above	<b>1f</b>	
	<b>g</b>	Noncash contributions included in lines 1a-1f: \$		
	<b>h</b>	<b>Total.</b> Add lines 1a-1f . . . . . ▶		
<b>Program Service Revenue</b>	<b>2a</b>		<b>Business Code</b>	
	<b>b</b>	.....		
	<b>c</b>	.....		
	<b>d</b>	.....		
	<b>e</b>	.....		
	<b>f</b>	All other program service revenue .		
	<b>g</b>	<b>Total.</b> Add lines 2a-2f . . . . . ▶		
	<b>3</b>	Investment income (including dividends, interest, and other similar amounts) . . . . . ▶		
<b>4</b>	Income from investment of tax-exempt bond proceeds ▶			
<b>5</b>	Revolving			

\* Form 990

- \* Having multiple sources of revenue can be beneficial for a nonprofit. For example, if an organization experiences a drop in donations from individuals, then it can draw from other revenue sources to sustain its programs. If a nonprofit has no revenue listed on line 1f, then it may not even be prepared to accept private contributions.



- \* **Fundraising Costs Allocated to Program Costs:** Joint costs, reported in Part IX, line 26, refer to activities that combine educational campaigns with fundraising. Joint costs can disguise a charity's true fundraising costs and inflate its programs
- \* You can see the amount of joint costs in a nonprofit's program expenses by dividing line 26, column b by line 25, column b (total program expenses).

23	Insurance . . . . .				
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a	.....				
b	.....				
c	.....				
d	.....				
e	All other expenses .....				
25	<b>Total functional expenses.</b> Add lines 1 through 24e				
26	<b>Joint costs.</b> Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) . . . . .				

\* Form 990

- \* **Professional Fundraisers:** If a nonprofit uses a professional fundraiser, then be aware that part of donation (usually a considerable amount) will go to that for-profit fundraising firm and not to the charitable programs/services



- \* You can determine if a charity uses professional fundraisers by examining the charity's Form 990 in Part I, line 16a, column band in Schedule G (which offers a more detailed breakdown). If the nonprofit is spending a lot on outside fundraising firms then little is going towards its charitable mission.

		Prior Year	Current Year
<b>Revenue</b>	<b>8</b>	Contributions and grants (Part VIII, line 1h) . . . . .	
	<b>9</b>	Program service revenue (Part VIII, line 2g) . . . . .	
	<b>10</b>	Investment income (Part VIII, column (A), lines 3, 4, and 7d) . . . . .	
	<b>11</b>	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) . . . . .	
	<b>12</b>	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	
<b>Expenses</b>	<b>13</b>	Grants and similar amounts paid (Part IX, column (A), lines 1–3) . . . . .	
	<b>14</b>	Benefits paid to or for members (Part IX, column (A), line 4) . . . . .	
	<b>15</b>	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	
	<b>16a</b>	Professional fundraising fees (Part IX, column (A), line 11e) . . . . .	
	<b>b</b>	Total fundraising expenses (Part IX, column (D), line 25) ▶	
	<b>17</b>	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) . . . . .	
	<b>18</b>	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25) . . . . .	
	<b>19</b>	Revenue less expenses. Subtract line 18 from line 12 . . . . .	

# Look Beyond the numbers

- \* Things to look for: Where does the money come from? Is there just one large donor supporting the operations?
- \* A low cash-to-current liabilities ratio might indicate potential problems in meeting obligations.
- \* Having two years' worth of data helps determine the direction of the agency.
- \* Look for things that have changed, such as increasing administrative costs.



# Grant agreements

- \* Grant agreements are a key control to addressing risk and/or higher need grantees:
  - \* ◦ Regulatory compliance
  - \* ◦ Monitoring program and financial performance
  - \* ◦ Protects the state
  
- \* Higher risk grantee? Consider extra protections in grant agreement:
  - \* ◦ Different payment terms
  - \* ◦ Monitoring requirements detailed in agreement
  - \* ◦ Extra reporting requirements or update meetings

# Resources

[Office of Grants Management grants policies](#)

[Office of Grants Management training](#)

[Nonprofits Assistance Fund financial reporting resources](#)

[Economic Research Institute: 1990 search](#)

[Guidestar: 1990 search](#)

[IRS instructions for the 1990](#)

[National Center for Charitable Statistics](#)

[KnowledgeBase - Financial terminology and the Form 990 \(FAQ\)](#)

[Association of Government Accountants Toolkits and Guides](#)