



# **No More Fake Funder Budgets!** **Transforming Grantee Financial Review**

Wednesday, May 25, 2016  
9:00am to 11:00am

# POLL!



# POLL!

- Program officer
- Grants manager
- ED/CEO
- Other foundation staff person
- Former nonprofit staff
- Current nonprofit board member
- Have written a grant proposal in the last year

I can't believe I made them  
send me so much information I  
didn't use...





Your grantmaking practices are  
**visible evidence**  
of what you care about

1. What is a value held by your organization?
2. How does the value show up (or not) in your relationships and grantmaking practices?



# A simple premise...

Grantseekers devote too much time to seeking funding

*(often without payoff)*

and reporting on grants

*(often without benefit)*

to the detriment of  
their mission-based work







# And a straightforward goal...

To help grantmakers *understand* and *reduce*  
the burden of application and reporting  
while still getting the information  
they need to make good decisions.



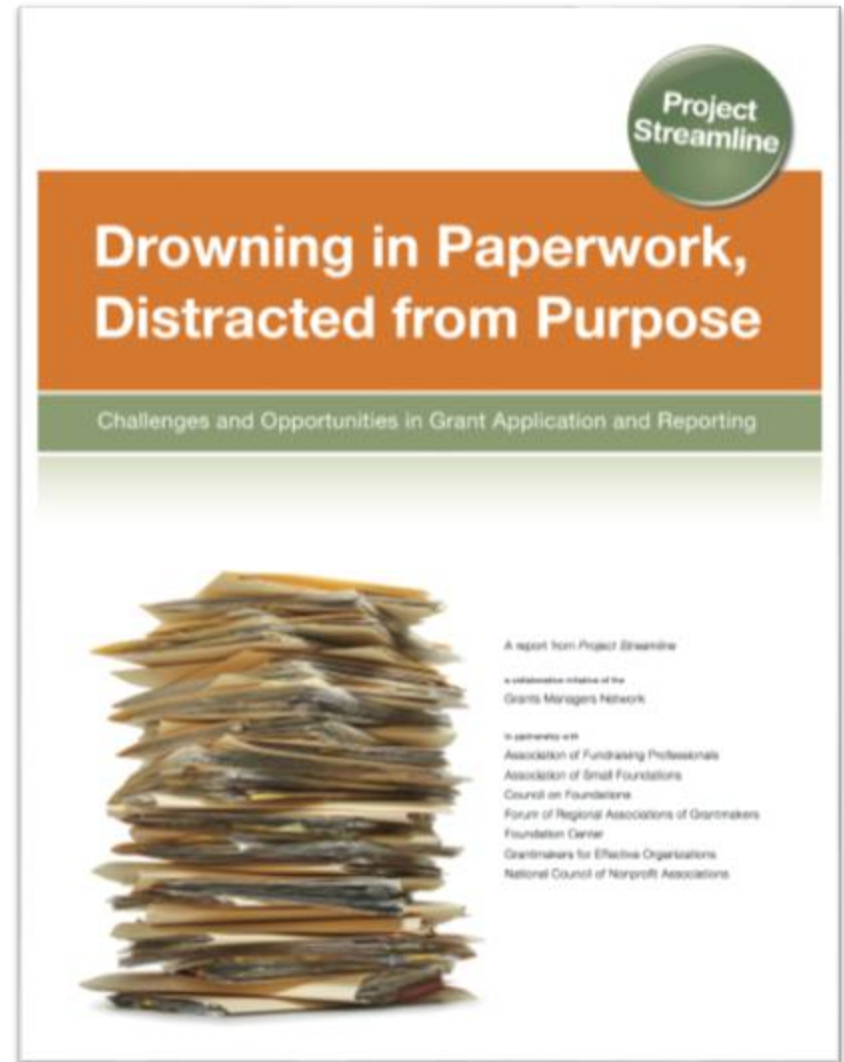


A close-up photograph of a hand holding a white paper airplane. The hand is positioned at the bottom right, gripping the fuselage of the plane. The paper airplane is white and has a simple, aerodynamic design with a pointed nose and folded wings. The background is a clear blue sky with some light, wispy clouds. The text "Streamlining..." is overlaid on the left side of the image, in a black, sans-serif font.

Streamlining...

# Four Core Principles

1. Take a fresh look at information requirements
2. Right-size expectations
3. Relieve the burden
4. Straightforward & clear communications



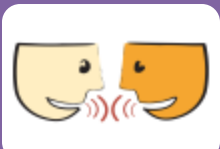
# Practices That Matter



Online systems that work



Accepting budget and financial reports “as is”



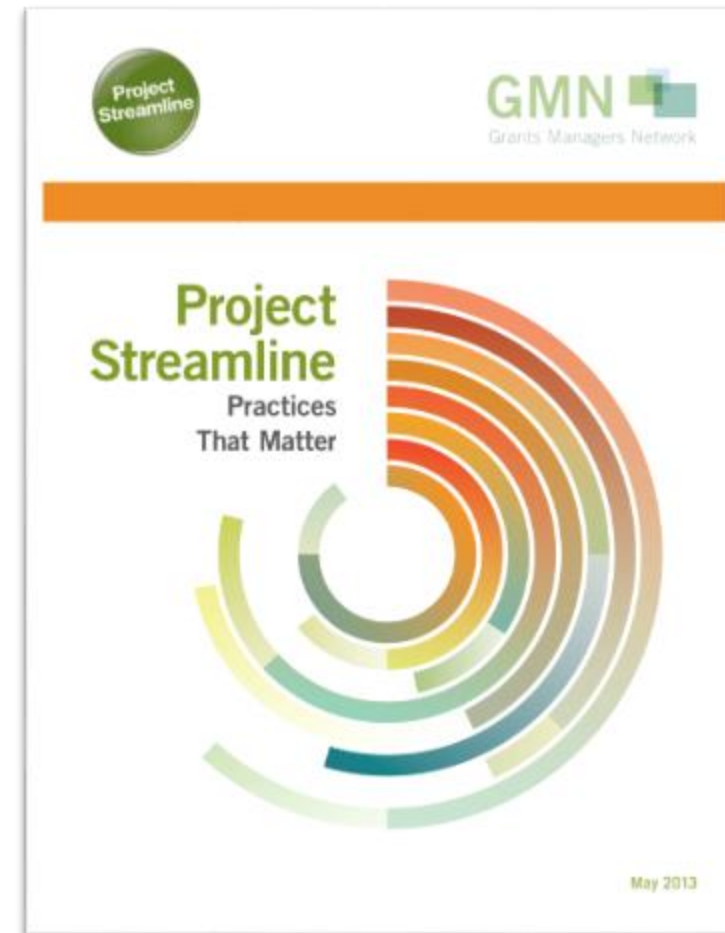
Clear, two-way communications



Filter with brief LOI, conversation, etc.



Right-sized practices



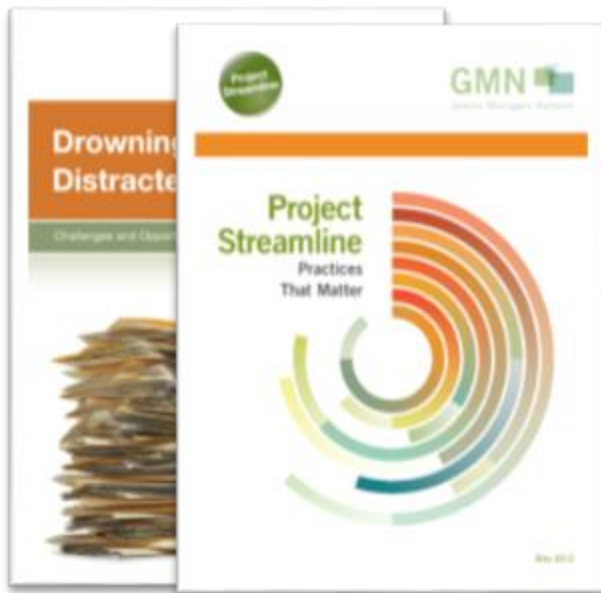




# Values & Practices

## Discuss:

- What is your current practice?
- How could you better align practices with your values?
- Who do you need to influence?
- How could you make the case?



Research Reports



Guide to Streamlining Series



Project Streamline Blog Series



Self-Assessment Tool



Cost Audit tools



Sample grantee survey

**What does a nonprofit  
organization's budget  
tell you?**

# Board Member Most Frequent Answers:

1) Shows they're legit/no fraud.

NOPE, not even an audit can do this.

2) Shows how healthy they are.

NOPE, need a balance sheet for that.



# Program Officers Most Frequent Answers:

1) Shows who else is funding.

Yes, because we ask for that list. It could be a narrative (and now it is!).

2) Tells me how they do their work.

Maybe, maybe not. Mostly we fund: people, their offices, and travel out of the office.

### Does this budget look familiar?

Grants	410,000
Donations	45,000
Earned Income	<u>5,000</u>
<b>Total Revenue</b>	<b>460,000</b>
Leadership Development	245,000
Civic Engagement	160,000
Communications	<u>55,000</u>
<b>Total Expenses</b>	<b>460,000</b>

### How about this one?

Committed	
Akonadi	50,000
CA Wellness	150,000
Hass Jr.	75,000
Renewal	
Groundswell	30,000
Proteus	50,000
U.U. Veatch	40,000
Pending	
Common Counsel	15,000
Donations	45,000
Earned Income	<u>5,000</u>
<b>Total Revenue</b>	<b>460,000</b>

What do these two budgets have in common?

**Like magic, they balance!**

Personnel	300,000
Consultants	45,000
Occupancy	38,000
Travel	35,000
Technology	27,000
Publications	<u>15,000</u>
<b>Total Expenses</b>	<b>460,000</b>

# What we really learn from a nonprofit's budget:

How well the organization has learned to create (fake) funder budgets.



1. FHI is an approach not a tool
2. Aligns grantmaking process to grantee financial health
3. Supportive not punitive



# **Board of Governors Policy Rationale**

## **Financial Health Indicators**

*October 2012*

The following is a summary of the core assumptions guiding the VBOG in 2013 when they developed and implemented the Financial Health Indicators (FHI) tool.

### THE FHI IS:

- An extension of the VBOG's respect for the professional staff.
- A vehicle for ongoing discussions with grantees about their long-term financial management.
- A tool to identify opportunities for possible capacity-building support.
- A consistent metric for measuring the financial health of Veatch Program grantees.

**Board of Governors Policy Rationale**  
**Financial Health Indicators**  
*October 2012*

The following is a summary of the core assumptions guiding the VBOG in 2013 when they developed and implemented the Financial Health Indicators (FHI) tool.

THE FHI IS:

- An extension of the VBOG's respect for the professional staff.
- A vehicle for ongoing discussions with grantees about their long-term financial management.
- A tool to identify opportunities for possible capacity-building support.
- A consistent metric for measuring the financial health of Veatch Program grantees.

THE FHI IS NOT:

- A response to any concerns about the quality of the review being conducted by Veatch Program staff.
- The deciding factor in whether the board approves or rejects a grant.
- A mastery scale -- we expect that the Veatch Program portfolio will always include a healthy mix of groups across all three rating levels.
- Sufficient as a stand-alone tool for reviewing current and prospective grantees.

# **Financial Health Vocabulary**

## ***Unrestricted Net Assets***

Funds that are not restricted by time or purpose and are available for the group to use as needed.

## ***Reserves***

This is technically the amount of *Unrestricted Net Assets* compared to Total Expenses. Reserves provide stability to absorb the ups and downs of funding without having to cut programs.

## ***Temporarily Restricted Net Assets***

Funds that are restricted by time or purpose and can only be released for the organization to use at the time the restriction is met.

*For example:* When a group receives a multi-year grant, the first year is available for them to use immediately and the other two years will be placed in the Temporarily Restricted Net Assets. When the time has come for the second year of the grant to begin, they can use that money for the organization's work in the year in which it is intended.

## ***Public Support:***

This is a term directly from the Form 990 and refers to a five-year average of donations above a certain level. The Public Support calculation is included in the FHI as a proxy for measuring the diversity of the organization's sources of support.

## ***Fiscal Sponsor***

An organization that offers their 501(c)3 tax-exempt status to groups who are not independently registered. A group may not have their own tax-exempt status for many reasons including the cost, time it can take to be approved, and short-term nature of a project or campaign. The fiscal sponsorship arrangement typically involves a fee-based contractual arrangement between a project and an established non-profit.

# FINANCIAL HEALTH INDICATORS

**Based on the following information from the Form 990:**

1. Total Revenue
2. Total Expense
3. Unrestricted Net Assets
4. Temporarily Restricted Net Assets
5. Public Support Percentage

**We look at 2-3 years of the actual financial data to assess the following trends:**

1. Trend in Unrestricted Net Assets—decreasing, stable or increasing
2. Trend in Temporarily Restricted Net Assets – decreasing, stable or increasing
3. The Number of Months of Unrestricted Net Assets



# Why?

These data points help us understand the following:

## *Resilience:*

Unrestricted Net Assets are the reserves grantees have available to smooth the inevitable ups and downs in revenue and stabilize expenses and therefore maintain programs and effectiveness. The amount of unrestricted net assets compared to total expenses provides the initial financial health rating for each grantee. The change in unrestricted net assets over a three- year period shows how the grantee is managing their reserves over time.

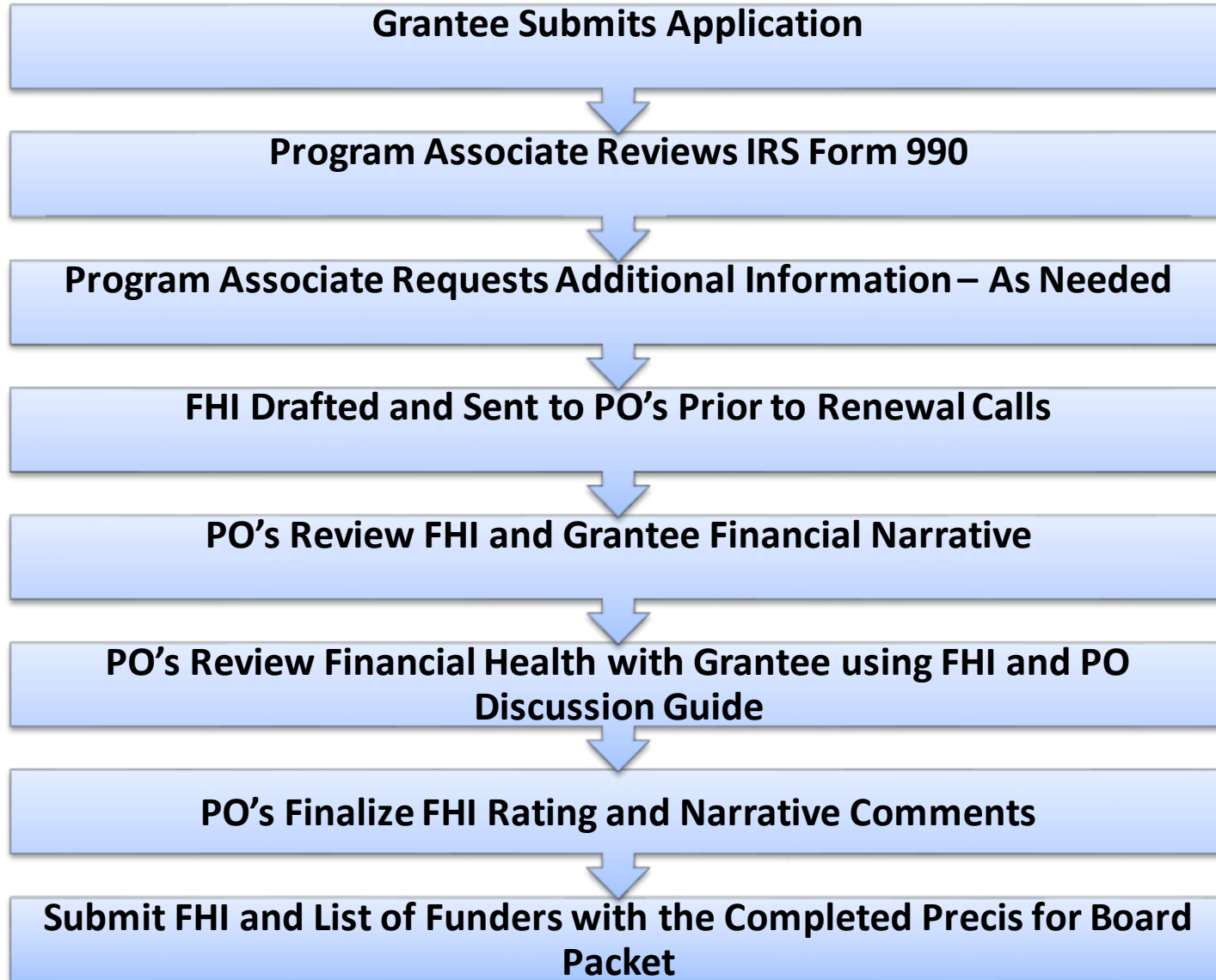
## *Stability and Growth:*

Temporarily Restricted Net Assets helps us understand funds secured for future operations, compared to total expenses, which indicate an ability to maintain the current expenses into the future. The change in temporarily restricted net assets over a three-year period shows trends mainly in foundation fundraising over time.

## *Sustainability:*

Public Support percentage provides a measure of the diversity of funding sources.

## How Grantee Financial Information Becomes an FHI...



# FHI PROGRAM OFFICER DISCUSSION GUIDE

Program Officers use the guide to:

- Have focused conversations with our grantees about their overall financial health.
- Not every question will be asked of each grantee.
- Questions are selected based on their relevance to that particular grantee's situation.
- The information gathered in our discussions is then factored into the overall ranking for the organization and addressed in the narrative portion of the FHI.



## Financial Health Indicators Program Officer Discussion Guide

- 1) **Based on the trends in the Financial Health Indicators Matrix: I've noticed that...**
  - a) *Trend (Up or Down) in Unrestricted Net Assets*
    - i) Do you expect that continue? Why or why not?
  - b) *Trend (Up or Down) in Temp Restricted Net Assets*
    - i) Do you expect that to continue? Why or why not?
  - c) *Low level of Public Support*
    - i) How will you diversify your funding sources?
  - d) *Low level of reserves*
    - i) Do you plan to build reserves? What's the plan?
  - e) *Low level of Temp Restricted Funds*
    - i) What are your fundraising prospects? Any new funders in the pipeline?
- 2) **I noticed from your most recent 990 or audit that...**
- 3) **Any projected changes in revenue?**
  - a) New funders
  - b) New donor or earned income strategies
  - c) Loss of funders
- 4) **Any projected changes in expenses?**
  - a) New programs
  - b) Cutbacks
  - c) One-time capacity building or consulting efforts
- 5) **Are you projecting a surplus or deficit for this year? Why?**
- 6) **Are there any staffing changes?**
  - a) New positions
  - b) Staff leaving —is their position being filled or restructured?
  - c) Cutbacks or hiring freezes
- 7) **Are there any changes on the board?**
- 8) **For groups with a c3/c4 structure:**
  - a) Do you have a cost-sharing agreement in place? Is the c3 or the c4 the "lead" agency?
  - b) How often do reimbursements happen? Monthly, quarterly?
  - c) Do you track c3 and c4 time on timesheets? Are they up to date?
- 9) **For fiscally sponsored projects:**
  - a) How often do you get reports from your fiscal sponsor? How timely are the reports?
  - b) Do you plan to stay with your current fiscal sponsor?
  - c) If looking for a new sponsor, how are you assessing potential sponsors?
  - d) Any plans to get your own c3 status?

# THE FINANCIAL HEALTH INDICATORS SUMMARY FORM

The FHI Summary Form Allows PO's to:

1. Review a snapshot of the organization's financial position.
1. Compare the financial information over 2-3 years.
2. Standardize the presentation of financial information to the board.
3. Provide valuable narrative commentary on the organizations overall financial health and capture comments from the PO conversation.

<b>Grantee:</b>	GRANTEE	
<b>Recommended</b>	<b>2014</b> \$40,000	<b>2013</b> \$40,000
<b>Health Rating</b>	<b>JAN.-DEC. 2012</b> ATTENTION	<b>JAN.-DEC. 2011</b> ATTENTION
<b>Analyzed</b>	<b>JAN.-DEC. 2012</b>	<b>JAN.-DEC. 2011</b>
	0.7	1.3
<b>Grant Funds for [ ]</b>	6.6	3.7
<b>Revenue</b>	\$1,460,013	\$1,076,472
<b>Expenses</b>	\$1,166,998	\$822,502
	<p>Grantee has recently used a significant portion of their reserves and has low overall reserves. Grantee has a healthy amount of grant funds for the future and has an upward trend in raising money for future work which means they are in a strong position to maintain or grow their current budget. The years reviewed are the three during which the grantee was undergoing a merger of two organizations. They used their reserves to cover the added expenses of this endeavor and have come out of the process a stronger and well managed organization.</p>	
<b>NOTES...</b>		
Reserves provide stability and downs of funding programs.		
Grant funds for the future of future budgets. Grant individual support may		

## FHI RATINGS

### **GREEN = Good**

Grantees where there are no financial concerns and the future outlook is positive.

### **YELLOW = Stable**

Grantees where there are no immediate financial concerns but there is room for an improvement in the future outlook.

### **RED = Needs Attention**

Grantees that need more attention to improve their financial performance. They usually have a combination of current financial concerns and a negative future outlook.

## Financial Health Sentence Starters

### Sample Financial Analysis Sentences

#### #Mths of Reserves

GOOD	STABLE	ATTENTION
Grantee has healthy reserves.	Grantee has adequate reserves.	Grantee has low reserves.

#### # Mths of Temp Restricted Funds

GOOD	STABLE	ATTENTION
Grantee has a healthy amount of grant funds for the future.	Grantee has an adequate amount of grant funds for the future.	Grantee has low grant funds for the future.

#### Change in Unrestricted Trend

GOOD	GOOD	STABLE	ATTENTION
Positive #	Negative #		
Grantee has been able to add to their reserves.	Grantee is maintaining their reserves.	Grantee has used some of their reserves.	Grantee has used a significant portion of their reserves.

#### Change in Temp Restricted

GOOD	GOOD	STABLE	ATTENTION
Positive #	Negative #		
Grantee has increased the amount of grant funds raised for the future which means they are in a strong position to maintain or grow their current budget.	Grantee is in a good position to maintain their current budget.	The amount of grant funds raised for the future has decreased which means Grantee may experience some budget cuts.	The amount of grant funds raised for the future has decreased significantly which means Grantee is very likely to need budget cuts.

#### Public Support %

GOOD	STABLE	ATTENTION
Grantee does have diverse sources of support.	Grantee may need to diversify their sources of support	Grantee has highly concentrated sources of support and needs to address this to not be tipped into private foundation status.

The Sample Sentences are designed to match the colors and headers of the FHI.

Grantee:	Grantee
----------	---------

	Year	Amount
Grant Amount Recommended	2014	\$40,000
Most Recent Grant Awarded	2013	\$45,000

Enter the following figures from either the 990 or the Audit:

	Most Recent Year	Year	Year
	JAN-DEC. 2012	JAN-DEC. 2011	JAN-DEC. 2010
Total Revenue	1,460,013	1,076,472	467,838
Total Expenses	1,166,998	999,830	472,374
Unrestricted Net Assets	67,947	109,182	344,790
Temp Restricted Net Assets	646,500	312,250	329,271
Public Support %*	69	72	56

\* Public Support % comes only from 990

Analysis			
Initial Rating: # Mths of Reserves	0.7	1.3	8.8
Enter Rating in Words	ATTENTION	ATTENTION	GOOD

Mitigating Factors			
Change in Unrestricted Trend	-38%	-68%	

# Mths of Temp Restricted Funds	6.6	3.7	8.4
---------------------------------	-----	-----	-----

Change in Temp Restricted Trend	107%	-8%	
---------------------------------	------	-----	--

Public Support %	69.2	71.5	55.5
------------------	------	------	------



# What we have learned so far and why we are continuing with the FHI:

- The quality of our conversations with grantees is enhanced.
- The dialogue with the Board about the financial health of grantees is improved.
- Staff are satisfied that we have developed a fair and consistent review process.
- The improvements in the financial requirement of our grant creates tangible savings for our grantees by reducing the time they spend on our application and renewal.



## Remember...

- You can be bold – you won't die or go to jail
- Change is a PROCESS – it won't happen overnight.
- Implementation takes time, commitment, and patience with change