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Funder Risk Assessment – Will You Pass?

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Agenda

1. Introductions
2. Organizational Documents - overview
3. Funder advice and tips
4. Federal grant considerations
5. Examples of financial issues and framing them in a positive way
6. Organizational Attachments – what funders look for

Focus is on **organization** finances, operations, capacity, and key indicators

GPC Competencies

Primary GPC Competency

02: Knowledge of organizational development as it pertains to grant seeking

...in that organizational financials and other key indicators reflect organizational readiness, capacity to manage grants, and organizational stability and sustainability

Secondary GPC Competency

04: Knowledge of how to craft, construct, and submit an effective grant application

...in that organizational financials and other key indicators are as important as any other part of an application, maybe more so

Who Are We?

Ellen Gugel

20 years grant writing and fundraising in staff roles and independent consultant

Developed hundreds of successful proposals for social services, education, health, environment, social change, advocacy, and arts and cultural from small grassroots to \$60M+ organizations

GPC 2010-present (#OH0090006)

MBA, Certificate in Public & Nonprofit Management, Boston University 1997

GPA Regional Representative – Region 5

Currently independent grants & fundraising consultant = www.grantsandmore.org



Who Are We?

Mark Beamis

Grants management consultant since 1997

Consultant for the City of Boston Mayor's Office of Workforce Development since 1997, assisting Boston and others with proposal reviews, procurement, contracting, internal controls and audit – reviewing organizations for federal pass-through funds, analyzing organizational audits, risk assessment

Head of Contracts Office for Boston Mayor's Office of Jobs & Community Services 1985 to 1997, involved in all phases of management/administration of federal, state and city grants

Past board member, Grant Professionals Foundation, an affiliate of the Grant Professionals Association, 2016-2019.

Treasurer, GPA New England Chapter 2009 to 2018

Member, National Grants Management Association and National Association of Workforce Development Professionals



Who Are You?

Survey

Have you had to explain a potential financial “red flag” in a proposal such as a deficit, revenues significantly down, or closing a program?

What other organizational or financial problems have you had to explain? Or didn't?

Did it work? Did you get the grant?

Organizational Documents

(and other sources funders look at)

1. Most recent **Financial Audit** (sometimes two years of audits requested)
2. **Single Audit** (if your organization is required to have one-very important document if applying for federal funds)
3. Most recent **Form 990** – *Note: 990s are easily found, often on Guidestar. Many foundations look at them whether requested or not.*
4. Current board-approved **Organizational (Operating) Budget**
5. Current **profit/loss statement** (sometimes requested)
6. **Annual Report**
7. Your **web site**, **Google** search
8. What **other foundations** say about you

Why? Determine organizational, financial, programmatic stability, sustainability – and risk

Funder Advice: “Be Upfront About Problems”

VP for Programs, local health foundation (2006-2017)

“Be upfront if there’s a problem.”

“Be honest about any problems.”

“Don’t gloss over it - don’t pretend the funder won’t see it.”

“Don’t make me find it.”

“Trust issue. If I find a problem you didn’t tell me about, that undermines trust. And you probably won’t get a grant.”

Funder Advice: “Think Like a Parent”

Director at a Boston-based foundation management organization (1999-present)

“Think like a parent. Funders look at financials with the same questions parents ask their kids when they ask for \$50.”

- Who, what, where, when, why?
- Can I trust you?
- Will you spend the money wisely?
- What did you do with money you got before?
- Will it be enough? If not, how will you get the rest?
- Have you considered the costs and benefits?
- Will the benefits exceed the risk?

Funder Advice: Red Flags

Senior Program Officer, local community foundation (2007-2015)

A deficit running for three or more years

Are there any “going concerns”? Found at the narrative from the auditors at the beginning of the audit (in the “Opinion Letter”). If yes, you need to find out why in the Notes. May be a red flag.

Over-reliance on a single source, or relatively few sources, of funding – diversified funding an issue more often for smaller organizations (e.g., one large wealthy donor, a single large contract, one program, etc.)

Funder Advice: Red Flags

Senior Program Officer, local community foundation (2007-2015)

Overly “rosy” income projections or large increase in income projected – must explain **how** revenues will rise – new/additional development staff? Merging with another organization? Expecting new large contract?

Less than 100% board giving – no good way to explain that unless you have recently fired or retired board members who failed to fulfill their financial obligation or done recent board training, new board job descriptions, etc.

Funder Advice: Red Flags

Director at a Boston-based foundation management organization (1999-present)

Relying on the foundation you are applying to for the bulk of your organizational (or even program) income is a red flag.

Few committed, pending, or anticipated institutional donors: “We look for hustle. We don’t want to see our foundation as the only institutional donor listed. Diversity of funders is a sign of resilience, flexibility, adaptability. We look for ‘hustle’ – are you working all the angles?”

Example: an organization that hadn’t developed relationships with other funders, got complacent with funding streams from a finite set of funders. They were doing pioneering work. So why didn’t they talk to and engage other donors? Foundations love that stuff - start-up, bridge money, social entrepreneurship. Raises a question: are those orgs not hustling on the programmatic side?

More Funder Tips

Director at a Boston-based foundation management organization (1999-present)

Analyze yourself. All financial transactions have an aspect of risk management. Funders look at financials to confirm their biases, identify risks, and spot trends. Financials are data. If the organization does not analyze its data the funder will. They will be far less understanding and possibly wrong. Few organizations explain their financial data well.

Avoid self-sabotage. Funders are always looking for reasons to say no. More often than not, nonprofit financial materials and budgets are the nails in the coffin of a decision not to fund an organization.

More Funder Tips

Director at a Boston-based foundation management organization (1999-present)

Turn weaknesses into strengths. When you have a deficit or are recovering from mistakes you have two choices: a) Pretend that nobody will notice; b) Communicate your organizational strengths by highlighting how you are addressing the problem.

Explain the unusual. Quirky and complex financial dealings, loans, investments, restricted grants, write-downs, subsidiaries, fiscal sponsorships, contracts, etc. are trip hazards.

More Funder Tips

Director at a Boston-based foundation management organization (1999-present)

“Nonprofit financials and proposal budgets are a train wreck.”

“Your financial package tells a story. Few organizations curate that story well in their presentation materials.”

“Financials are usually **not** explained well and we have to ask; you should have **told** us. Shows the organization is not self-aware enough to say something is a concern.”

“Fundraisers usually treat grant applications as a functional transaction. Funders ask for “X” and applicant gives the minimum. Disappointing.”

“Anticipate that reviewers will find fault, but you can balance fault with strategy that addresses problems that you have. Applicant has to be its own advocate, “cheerleader” for all the good stuff it’s doing.”

Final Funder Tip – It's About Trust

Director at a Boston-based foundation management organization (1999-present)

“What we know about trust and relationships is rooted in **transparency**.*

And when you don't have that or don't share a little bit of ***yourself*** in a relationship, you won't increase closeness, you'll increase distance.*

And we know that fundraising, even from institutional donors, is about relationships. Treat institutional donors like your major donors. They're people too.”

Applying for Federal Grants

From 2 CFR Part 200-[UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS](#) –

AKA OMB's Uniform Guidance

§200.204 Federal awarding agency review of merit of proposals.

For competitive grants or cooperative agreements, unless prohibited by Federal statute, the Federal awarding agency **must** design and execute a merit review process for applications. This process **must** be described or incorporated by reference in the applicable funding opportunity (see Appendix I to this part, Full text of the Funding Opportunity.) See also §200.203 Notices of funding opportunities.

§200.205 Federal awarding agency review of risk posed by applicants.

(a) Review of OMB-designated repositories of governmentwide data.

(1) Prior to making a Federal award, the Federal awarding agency is required by 31 U.S.C. 3321 and 41 U.S.C. 2313 note to review information available through any OMB-designated repositories of governmentwide eligibility qualification or financial integrity information as appropriate. See also suspension and debarment requirements at 2 CFR part 180 as well as individual Federal agency suspension and debarment regulations in title 2 of the Code of Federal Regulations.

(2) In accordance 41 U.S.C. 2313, the Federal awarding agency is required to review the non-public segment of the OMB-designated integrity and performance system accessible through SAM (currently the Federal Awardee Performance and Integrity Information System (FAPIIS)) prior to making a Federal award where the Federal share is expected to exceed the simplified acquisition threshold, defined in 41 U.S.C. 134, over the period of performance. At a minimum, the information in the system for a prior Federal award recipient must demonstrate a satisfactory record of executing programs or activities under Federal grants, cooperative agreements, or procurement awards; and integrity and business ethics. The Federal awarding agency may make a Federal award to a recipient who does not fully meet these standards, if it is determined that the information is not relevant to the current Federal award under consideration or there are specific conditions that can appropriately mitigate the effects of the non-Federal entity's risk in accordance with §200.207 Specific conditions.

§200.205 Federal awarding agency review of risk posed by applicants (continued)

(b) In addition, for competitive grants or cooperative agreements, the Federal awarding agency must have in place a framework for evaluating the risks posed by applicants before they receive Federal awards. This evaluation may incorporate results of the evaluation of the applicant's eligibility or the quality of its application. If the Federal awarding agency determines that a Federal award will be made, special conditions that correspond to the degree of risk assessed may be applied to the Federal award. Criteria to be evaluated must be described in the announcement of funding opportunity described in §200.203 Notices of funding opportunities.

(c) In evaluating risks posed by applicants, the Federal awarding agency may use a risk-based approach and may consider any items such as the following:

- (1) Financial stability;
- (2) Quality of management systems and ability to meet the management standards prescribed in this part;
- (3) History of performance. The applicant's record in managing Federal awards, if it is a prior recipient of Federal awards, including timeliness of compliance with applicable reporting requirements, conformance to the terms and conditions of previous Federal awards, and if applicable, the extent to which any previously awarded amounts will be expended prior to future awards;
- (4) Reports and findings from audits performed under Subpart F—Audit Requirements of this part or the reports and findings of any other available audits; and
- (5) The applicant's ability to effectively implement statutory, regulatory, or other requirements imposed on non-Federal entities.

(d) In addition to this review, the Federal awarding agency must comply with the guidelines on governmentwide suspension and debarment in 2 CFR part 180, and must require non-Federal entities to comply with these provisions. These provisions restrict Federal awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal programs or activities.



Organizational Deficit

some reasonable explanations

Depreciation (non-cash loss) – is deficit due to depreciation? AKA “deferred maintenance”. Maybe your board is planning a capital campaign to address property maintenance, aging buildings? And indicate some of the sources of funding you expect or have relied on in the past.

Loss on sale of property (non-cash loss) – maybe you had a good reason to sell – closing a program or selling it to an organization better positioned to run the program, or no longer fits your geographic or program strategy

Program losses – maybe you are looking to close a program or sell off that aspect of your business to an organization who can run it more profitably. May not be part of your core business or fit in with your strategic direction.

Planned deficit? Explain why.

Timing issue – sometimes cost cutting or new revenues do not fully show up in the current fiscal year’s end.

Other Reasons?

Organizational Deficit – Example

ABC Social Services, regional multi-service social service agency

Question: *If your organization experienced a deficit in either of the past two years, provide an explanation, including whether it was a planned deficit.*

The operating deficit last year was anticipated due to construction at the Healthcare Center, one of two skilled nursing facilities ABC owns and operates. A major construction project was in progress during which units were out of service temporarily. This resulted in a lower average daily census to break even. At the same time, we reviewed strategic direction and concluded that nursing homes are not a core strength or business. This year, ABC will sell the facility to another organization, a deal that's been in the works for over a year. Depreciation also partially explains the deficit. We are ending this year in the black.

ABC is 80% funded by government sources, mainly state contracts and Medicaid reimbursements. Pressure from the state to reduce costs and cut spending is affecting ABC. In response, we are looking at all programs and renegotiating contracts where possible. In the past year, we closed two youth residential programs because the state could not assure the number of clients for the program to remain financially viable.

We are working to develop and increase fee for service models where appropriate to diversify sources of revenue. This source makes up about 15% of the overall budget, and continues to slowly grow. We are also devoting additional resources to increase the share of philanthropic funding sources.

Revenue Loss

some reasonable explanations

Loss or end of large contract? Maybe another is starting up or has already started, but there was a lag (timing issue)

Are expenses contracting too?

Closing a program?

Recession, economic downturn – 2001 and after 2008, this could be a reasonable explanation

Board or individual giving down – economic downturn, maybe board members lost jobs in recession but looking for work, expect situation to improve

A large funder did not renew support? If so, why not? What sources are you looking to develop now, other than grants?

In Massachusetts, **Governor's 9C Cut?**

Natural disaster?

Other reasons?

Revenue Loss – Example

**First Parish, Small-town, New England, after 2008 recession
(answer also addresses fiscal sustainability)**

Question: *Document your urgent or impending financial need caused by the economic downturn.*

The current economy has profoundly affected our city, which suffers 13.2% unemployment, compared to 9.4% statewide. Our city's poverty rate of 18.2% is nearly double the statewide average, and 30% of children live in poverty.

Factors affecting our community are interrelated – increased unemployment, increased demand for social services, decreased federal and state funding, and a shrinking tax base. Attendance at our Pasta Supper is an economic barometer for the immediate area. **Attendance has nearly tripled in the past year**, and we are seeing more families.

Several long-time congregants who are key contributors are currently unemployed, though they expect to find employment as the economy slowly rebounds.

As an urban church, we also face typical ongoing challenges. Our congregation is evolving. The number of older, wealthier members is dwindling, as they move away or pass away. While new people are joining us, these young people, immigrants, and others have limited means. As a result, we've experienced a decline in income. The financial challenges of maintaining an old building are continuing

Some Strategies for Explaining Organizational or Financial Problems

e.g. Deficit, Loss of Revenue, Fraud, Lawsuit, Scandal

Not a problem if you are now on the right track - Explain what has changed.

Focus on solution, positive, moving forward. The past is over!

New leadership? New CEO or board president?

What steps have been taken to address problems? How and why are they sustainable?

Are there **new partners** with resources at the table?

Is there a **new strategic direction** or financial model you are pursuing? Why do you think it will work?

Are you selling off or pulling out of unprofitable parts of your business?

Diversifying revenues? Explain how. New fundraising strategy?

Organizational Attachments

what to look for in a financial audit

Notes section – dig in to find auditors' recommendations or concerns

Grant makers focus on

- Statement of Activities (income/expenses) – **deficit?**
- Statement of Financial Position (balance sheet) – **net assets negative?**
- Statement of Functional Expenses (e.g., salaries, benefits, occupancy, program costs) – **executive salaries and occupancy costs appropriate for organization size?**

Signed by the auditor

Reflects Form 990, filed by law with the IRS



Organizational Attachments

what to look for in a Single Audit

Auditor reports:

Federal agencies focus on the following:

- Report on Compliance for Each Major Federal Program
- Report on Internal Control Over Compliance
- Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

In a Single Audit, auditors also are required to issue (a) an opinion (or disclaimer of opinion) on the financial statements and on the supplementary schedule of expenditures of federal awards and (b) a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

Organizational Attachments

what to look for in a Single Audit

Are there any findings?

Specifically, are the auditor opinion reports unmodified, qualified or adverse?

Are there “significant deficiencies” or “material weaknesses” cited?

If there are issues raised, what is the response of management to the auditor recommendations?

Is there a corrective action plan with specific step and timeline?

Resources:

<https://www.sam.gov/SAM/pages/public/searchRecords/search.jsf>

Registration must be current and active.

<https://www.fapiis.gov/fapiis/index.action>

<https://harvester.census.gov/facdissem/SearchA133.aspx>

<http://thefdp.org/default/subaward-forms/>

Organizational Attachments

what to look for in a Form 990

Part I, Summary (page 1)

- # of Board members, Employees, Volunteers
- Total Revenue and Expenses: Lines 12 & 18
- Size of deficit or surplus: Line 19
- Total Assets & Liabilities (Lines 20 & 21)

Part III, Program Service Accomplishments, mission (page 2)

Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors (page 7-8) – appropriate compensation for size of organization

Statement of Functional Expenses (page 10, Part IX) – Program Services, Management & General, Fundraising

- Line 25 Total Expenses, equals Part I, Line 18

And more – Schedules for gifts & grants, for reporting assets such as endowment, property, etc., in-kind donations, event income, etc.

Organizational Attachments

example from a local community foundation

Financial Trends Report form requests what Greater Worcester Community Foundation considers the most significant metrics in a snapshot, with three years data and current year to date:

- Income & Expenses – form automatically calculates deficit/surplus
- Revenue sources in broad terms
- Property/equipment – shows how much an organization owns
- Unrestricted net assets – shows financial cushion (“how many months cash on hand to cover operating expenses?”) or if organization has accumulated “too much”
 - United Way likes to see six month cash reserves
 - Can be misleading if a significant portion is valuation of buildings, real estate, property

Other non-financial metrics as important – number of donors, members, subscribers, volunteers, clients or patrons (# served), and number of board members who made a financial gift

The form’s line items correspond to line items found in an audit

What is decreasing? Increasing? Any swings or dramatic changes?

Other Considerations

Have you developed a relationship with your Financial Dept. to help you understand the numbers and how to communicate them in the most positive light?

How does using a fiscal sponsor affect your application and answers?

Is yours a new organization with no track record, history or audited financials or outcomes (less than three years)?

Does your organization have experience managing grants?

Organizational efficiency compared to others in your sector, region?

What about the opposite – can you make things look too rosy?
“You don’t look like you need our money”.

When to walk away? Some financial problems or issues may prove the organization is not grant ready.

Final Q&A

Thank you!

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