#### **Instructions for using this template. Please read, then delete before saving your final document.**

1. NOTE: This template is *optional* for state agencies to use to document a potential nonprofit grantee financial review to meet the minimum requirements per Minn. Stat. §16B.981.
2. Instructions for each section are identified as *<****Instructions:*** *italics>*. Delete the instructions before saving your final document. [Brackets] indicate optional sections to be included or items where the agency needs to fill in the information.
3. If issues are noted during the review, the reviewer should follow up with the potential grantee and then document the results in the “Results of Financial Statement Review” section at the end of this document.
4. After this review is complete, agencies may securely dispose of the financial documents as this form will serve as the official record of review.

# Financial Review Form - Nonprofit

*<****Instructions****: Fill in the following to document who reviewed the financial statement for the potential grantee*.>

**Grantee Name:** [Grantee name]

**Date:**  [00/00/0000]

**Reviewed by:** [Reviewer name]

## Applicability

This form is to be used for potential nonprofit grantees being awarded $50,000 or more in order to complete the required risk assessment per Minn. Stat. §16B.981. Fill out each section below as applicable to the potential grantee.

The following document is being reviewed (check one):

[ ] Form 990 or 990 EZ

[ ] Board-reviewed (or other managing group) financial statements

[ ] Audited Financial Statements

## Form 990 or 990 EZ Review

#### <**Instructions:** *Conduct a Financial Review using the form 990 or 990 EZ to complete this section.* Additional ratios and review options are provided to give further context about the grantee’s financial stability.

*Calculate each of the ratios in the table and document your calculations and conclusions in the “Results” column. If any issues are noted, mark an “X” in the “Risk Noted” column, follow up with the potential grantee,* and fill out the section at the end of this template for “Results of Financial Review.” Consider asking the potential grantee some of these follow-up questions:

* What is contributing to your deficit in unrestricted net assets and/or increasing debt ratio?
* What factors in your organization are present and contributing to this?
* Is the board aware? How is the board involved in approving the budget?

Delete this section if not used.>

| Ratio NameFormula | Purpose and recommended usage | Results | Risk Noted |
| --- | --- | --- | --- |
| **Operating Deficit:** The following line items found on the Form 990:*Net assets or fund balances (Current Year – Prior Year) = Change in Net Assets*The following line items found on the Form 990 EZ:*Net assets or fund balances (End of Year – Beginning of Year) = Change in Net Assets* | The Change in Net Assets is a measure of whether the organization is adding to or subtracting from its bottom line.Nonprofits are not always going to generate a positive number year-over-year. Negative values year-over-year indicate the organization is exhausting its capital which could diminish its ability to perform the grant program. |  |  |
| **Percentage Change in Net Assets:**The Change in Net Assets is the operating deficit. In addition, you can calculate the Change in Net Assets as a percent of organizations total assets:*Change in Net Assets* *(End of Year or Current Year) Total Assets* | A Change in Net Assets divided by Total Assets which produced a percentage of negative -25% or greater two or more consecutive years is an indication of a shrinking organization and could be cause for concern. |  |  |
| **Debt Ratio:**From the Form 990 “Current Year”:*Total LiabilitiesUnrestricted Net Assets*From the 990 EZ “End of Year”:*Total Liabilities**Net Assets or Fund Balances* | The debt ratio is a measure of an organization’s debt burden. The ideal ratio is 0.5 or lower.The debt ratio should be compared year-over-year (or end of year to beginning of year for the Form 990 EZ) to see if it is increasing or decreasing. Debt can be a very useful instrument during an expansion or upgrade.  |  |  |

#### <**Instructions:** The following are optional review of line items found in the Form 990 or 990 EZ, identifying specific red flags to look for which can give additional assurance to financial review. A red flag does NOT mean fraud, waste, or abuse is occurring – rather they point to a need to ask more questions to ensure that it is not. Review the following line items and and if no issues are noted mark an “X” in the column for “OK.” If any issues are noted, mark an “X” in the “Risk Noted” column, follow up with the potential grantee, and fill out the section at the end of this template for “Results of Financial Review.” Delete this section if it is not used.>

| Optional Line item Review | Questions to Ask (Red Flags) | OK | Risk Noted |
| --- | --- | --- | --- |
| **Balance Sheet – Cash Fluctuations:**The following line items from Form 990: *Cash - non-interest bearing + Savings and temporary cash investments*The following line item from Form 990 EZ:*Cash, savings, and investments* | Look for significant fluctuations in cash balances from the Beginning of Year to End of Year:* If cash is decreasing year over year, are they able to pay their debts and/or continue operations?
* If cash held is increasing significantly year over year – are they appropriately spending their money?
 |  |  |
| **Balance Sheet - Increase of Assets other than Cash:** The following line items from Form 990: *Land, buildings, and equipment + Less Accumilated depreciation*The following line items from Form 990 EZ:*Land and Buildings and/or Other assets* | Look at any large changes of assets/equipment during the year or significant depreciation expenses (Form 990: Accumulated Depreciation), compared with totals from Change in Net Assets:* Do the purchase of or total amount of assets/property/equipment held seem appropriate for the organization?
* If a significant portion of their net assets is made up of other assets/property/equipment and it is increasing each year while their income (cash/receivables) is decreasing, this could be a way of them to hide their operating deficit.
 |  |  |
| Other | Note any other line items that have significant fluctuations. Follow-up with the grantee to inquire about the cause:* [Line item reviewed]
 |  |  |

## Board-Reviewed or Audited Financial Statements Calculations

#### <**Instructions:** *Conduct a Financial Review using the financial statements to complete this section.* Additional optional ratios and review options are provided to give futher context about the potential grantee’s financial stability.

Review the three parts of the financial statements:

* Statement of Financial Position (Sometimes called the Balance Sheet)
* Statement of Activities
* Statement of Cash Flows

*Calculate each of the ratios in the table and document your calculations and conclusions in the “Results” column. If any issues are noted, mark an “X” in the “Risk Noted” column, follow up with the potential grantee,* and fill out the section at the end of this template for “Results of Financial Review.” Consider asking the potential grantee some of these follow-up questions:

* What is contributing to your deficit in unrestricted net assets and/or increasing debt ratio?
* What factors in your organization are present and contributing to this?
* Is the board aware? How is the board involved in approving the budget?

*Other considerations of note when conducting a financial review:*

* *Inconsistent financial presentations*
* *Length of time to receive requested information.*
* *The organization changes independent auditors every year.*

*Delete this section if it is not used.>*

| Ratio NameFormula | Purpose and recommended usage | Results | Risk Noted |
| --- | --- | --- | --- |
| **Operating Deficit:** The following are all line items found on the Statement of Activities:*Total Revenues –Total Expenses = Change in Net Assets* | The Change in Net Assets is a measure of whether the organization is adding to or subtracting from its bottom line.Nonprofits are not always going to generate a positive number year-over-year. Negative values year-over-year indicate the organization is exhausting its capital which could diminish its ability to perform the grant program. |  |  |
| **Percentage Change in Net Assets:**The Change in Net Assets is the operating deficit. In addition, you can calculate the Change in Net Assets as a percent of organizations total assets (found on the Statement of Financial Position):*Change in Net Assets* *Total Assets* | A Change in Net Assets divided by Total Assets which produced a percentage of negative -25% or greater two or more consecutive years is an indication of a shrinking organization and could be cause for concern. |  |  |
| **Unrestricted Net Asset Deficit:**From the Statement of Financial Position:*Total Assets – Total Liabilities – Restricted Net Assets = Unrestricted Net Assets* | This represents the amount of assets an organization has with no restrictions for use.Any negative value could be cause for concern over the financial well-being of the potential grantee. A negative value indicates an organization needs to generate revenue in the coming year just to meet obligations incurred last year. Large deficits may be a precursor to bankruptcy.  |  |  |

<***Instructions:*** *The following are optional ratios. Calculate each of the ratios in the table and document your calculations and conclusions in the “Results” column. If any issues are noted, mark an “X” in the “Risk Noted” column, follow up with the potential grantee,* and fill out the section at the end of this template for “Results of Financial Review.” Delete this section if not used.>

| Optional Ratio NameFormula | Purpose and recommended usage | Results | Risk Noted |
| --- | --- | --- | --- |
| **Current Ratio:**From the Statement of Financial Position:*Current AssetsCurrent Liabilities*“Current” Assets and Liabilities are normally separated from “Long-Term” or “Other” Assets and Liabilities. | A common benchmark to determine if a nonprofit has enough resources (including receivables to be paid within the next year) available to cover its obligations (due within the next year), like salary or accounts payable. The ideal ratio is 2.0 or higher.The current ratio should be compared from year-to-year. A severely declining current ratio may indicate the organization is having trouble paying bills in a timely manner.  |  |  |
| **Debt Ratio:**From the Statement of Financial Position:*Total LiabilitiesUnrestricted Net Assets* | The debt ratio is a measure of an organization’s debt burden.The debt ratio should be compared year-over-year. Debt can be a very useful instrument during an expansion or upgrade. The ideal ratio is 0.5 or lower. |  |  |

#### <**Instructions:** The following are optional review of line items found in the financial statements, identifying specific red flags to look for which can give additional assurance to financial statement review. A red flag does NOT mean fraud, waste, or abuse is occurring – rather they point to a need to ask more questions to ensure that it is not. Review the following line items and and if no issues are noted mark an “X” in the column for “OK.” If any issues are noted, mark an “X” in the “Risk Noted” column, follow up with the potential grantee, and fill out the section at the end of this template for “Results of Financial Review.” Delete this section if not used.>

| Optional Line item Review | Questions to Ask (Red Flags) | OK | Risk Noted |
| --- | --- | --- | --- |
| Cash and cash equivalents (Statement of Financial Position) | Look for significant fluctuations in cash balances year to year:* If cash is decreasing year over year, are they able to pay their debts and/or continue operations?
* If cash held is increasing significantly year over year – are they appropriately spending their money?
 |  |  |
| Purchases of Property and Equipment or Other Assets (Statement of Cash Flows) and Depreciation (Statement of Functional Expenses) | Look at any large purchases of assets/equipment during the year or significant depreciation expenses, compared with total assets from the Statement of Financial Position:* Do the purchase of or total amount of assets/property/equipment held seem appropriate for the organization?
* If a significant portion of their net assets is made up of other assets/property/equipment and it is increasing each year while their income (cash/receivables) is decreasing, this could be a way of them to hide their operating deficit.
 |  |  |
| Other | Note any other line items that have significant fluctuations. Follow-up with the potential grantee to inquire about the cause:* [Line item reviewed]
 |  |  |

## Audited Financial Statements - Additional Questions

*<****Instructions:*** Answer the following questions for Audited Financial Statements, noting an “X” in the columns for “Yes” and “No.” If there is an issue noted with one of the questions, mark the “Risk Noted” column and fill out the section at the end of this template for “Results of Financial Review.” Delete this section if not used.***>***

| Question | Yes | No | Risk Noted |
| --- | --- | --- | --- |
| 1. Was the complete audit report provided? There should be a Table of Contents (TOC). All sections of the report, as indicated in the TOC, should be present.
 |  |  |  |
| 1. Was the independent auditor properly licensed to do public accounting in the State in which the potential grantee is incorporated?
* In Minnesota, auditing firms can be looked up online: <https://boa.state.mn.us/findFirm.html>
 |  |  |  |
| 1. Read the independent auditor’s report, which should be near the beginning of the report at the beginning of the Financial Section. Is the audit opinion “Unqualified?”

<***Instructions:*** *If “No” to number 3, the Office of Grants Management recommends having the report reviewed by someone in your organization with experience reviewing or preparing audits or financial reports. Any opinion on an audit report other than “Unqualified” could be cause for greater concern. Follow-up with the potential grantee on any concerns noted from the opinion and* fill out the section at the end of this template for “Results of Financial Review.”*>* |  |  |  |
| 1. Was the potential grantee subject to the Single Audit Act for the year under review? The Single Audit Act applies only to non-federal entities that expend $750K or more in ***federal awards*** in one year. You may need to refer to the Notes to the Financial Statements under “Federal Awards” or “Federal Financial Assistance.”

If “No” to number 4, skip to question 6. |  |  |  |
| 1. If a Single Audit is required, the following reports should be present at the end of the report OR included in a separate report from the independent auditor (titles of these reports may vary slightly):
* 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
* Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance;
* Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with [Title 2, Subtitle A, Chapter II, Part 200, Subpart F](https://www.ecfr.gov/cgi-bin/text-idx?node=sp2.1.200.f)
* Schedule of Findings and Questioned Costs
 |  |  |  |
| 1. Review the audit report and any additional reports (from step #5) for findings disclosed by the independent auditor. Discuss findings with the potential grantee. Have all of the findings disclosed in the report been resolved?

<***Instructions****: If “No,” to number 6, any and all findings by the auditor should be considered in grant award decisions. Have the finding(s) reviewed by someone in your organization with experience reviewing or preparing audits or financial reports if the finding(s) are difficult to understand. If you are examining findings related to federal awards, you may need to determine the cognizant agency that will be responsible for determining how the potential grantee resolves the findings. Follow-up with the potential grantee on any concerns noted from the findings and* fill out the section at the end of this template for “Results of the Financial Review.”> |  |  |  |

### <*Instructions:* The questions in this section refer to the Notes to the Financial Statement which typically follow the Statements referred to in the Financial Review Calculations. Completion of this section is optional for additional assurance in financial statement review.

In every audited Statement, there’s a footnote which reads “See Notes to the Financial Statements” or “The Notes to the Financial Statements are an integral part of this report.” In Audited Financial Statements, the Notes are covered by the Independent Auditor’s opinion and are considered just as important as the Statements.

 Answer the following questions, and if no issues are noted mark an “X” in the column for “OK.” If there is an issue noted with one of the questions, mark the “Issue Noted” column and fill out the section at the end of this template for “Results of Financial Review.” Not every Note in the following questions will be present in every set of Financial Statements: only those that are material and relevant to the organization being audited. If the Note is not present, you can assume the issue is not relevant to your grant applicant and should mark it as N/A. Delete this section if not used.>

| Optional - Notes to the Financial Statement Question | OK | N/A | RiskNoted |
| --- | --- | --- | --- |
| **Liquidity –**The liquidity is calculated in the notes to show the financial assets that are available to pay for expenditures in the next year. This number can compared with *Expenses* in the Statement of Activities, the *Current Liabilities* in the Statement of Financial Position, or the amounts in the Debt notes below to determine if they can cover their expenditures in the next year.* Does the potential grantee appear able to pay for its expected expenditures in the next year?
 |  |  |  |
| **Debt/Line of Credit/Notes Payable –** Organizations borrow money for various reasons:* Finance a large equipment or real estate purchase
* Working capital
* Cover operating expenses while waiting for reimbursement

You should read the note on your potential grantee’s short term (due within the next 12 months) and/or long term (due more than 12 months in the future) debt and evaluate their ability to make payments on that debt. (The debt ratio in the Financial Review Calculations above could be used.)* Does the potential grantee appear able to meet its debt payment based on its income streams?

Notice any significant increases in debt over the year:* Has the potential grantee been taking on debt to finance its operations in lieu of other income streams?
 |  |  |  |
| **Restrictions on the Use of Assets –** Although the potential grantee may have money in the bank according to the Statement of Financial Position (Balance Sheet), those funds may not be immediately available for use to pay for ongoing operation. Assets can be restricted for a number of reasons:* Grant requirements
* Debt covenants – Loan agreements may require the grant applicant to keep a certain amount of money on-hand to make several months’ loan payments
* Collateral – The money may be guaranteeing the debt obligation of others
* Trust agreements - A trust may have endowed the money to the grant applicant, but it can only be used for specified purposes.

The note should describe why the assets are restricted and how they can be used. You should be aware of restrictions on your potential grantee’s assets and how it can affect their ability to pay ongoing costs.* Do restrictions on assets cause you concern over your potential grantee’s ability to pay ongoing costs, at least in the short term?
 |  |  |  |
| **Subsequent events-**Subsequent events are defined as significant things that occurred to the grant applicant organization after the year-end financial date but before the date of the audit report. The date of the audit report is the date on the Independent Auditor’s report near the beginning of the financial section.For example, the year-end date is often the end of the calendar year. If the audit report were dated July 14th, 2022, then subsequent events would be events occurring between January 1st and July 14th, 2022.Subsequent events only include events of great enough significance that it would affect an average reader’s opinion of the financial status of the organization. Examples include (but not limited to):* Default on a significant debt
* Declaration of bankruptcy
* Natural disaster affecting operations
* Pending or settlement of significant litigation

Granting agencies should read the subsequent events note.* Do any subsequent events disclosed alter your opinion of the potential grantee’s ability to perform on the grant program?
 |  |  |  |

## Results of Financial Review

|  |  |  |
| --- | --- | --- |
| Results of Financial Review | Yes | No |
| Did you find any significant risks that need to be addressed before contracting with the potential grantee? |  |  |

<***Instructions:*** *If the above question is “Yes”, fill in the table below based on issues noted during the review in the above sections*. Add or delete rows in the table as needed.>

| Risk Noted | Follow-up steps completed and potential grantee response  | Impact to grant monitoring plan |
| --- | --- | --- |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |