#### **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 for-profit 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 statements as this form will serve as the official record of review.

# Financial Review Form – For-Profit

*<****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 checklist is to be used for potential for-profit grantees being awarded $50,000 or more in order to complete the required risk assessment per Minn. Stat. §16B.981.

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

Review the three parts of the financial statements:

* Balance Sheet
* Income Statement
* 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?

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

* *Inconsistent financial presentations*
* *Length of time to receive requested information.>*

| Ratio Name Formula | Purpose and recommended usage | Results | Risk Noted |
| --- | --- | --- | --- |
| **Operating Deficit:**  The following are all line items found on the Income Statement:  *Total Revenues –Total Expenses = 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* | The Change in Net Assets is a measure of whether the organization is adding to or subtracting from its bottom line.  Negative values year-over-year indicate the organization is exhausting its capital which could diminish its ability to perform the grant program.  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 Balance Sheet:  *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.”>

| Optional Ratio Name Formula | Purpose and recommended usage | Results | Risk Noted |
| --- | --- | --- | --- |
| **Current Ratio:**  From the Balance Sheet:  *Current Assets Current Liabilities*  “Current” Assets and Liabilities are normally separated from “Long-Term” or “Other” Assets and Liabilities. | A common benchmark to determine if a business 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 Balance Sheet:  *Total Liabilities Unrestricted 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 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.” >

| Optional Line-item Review | Questions to Ask (Red Flags) | OK | Risk Noted |
| --- | --- | --- | --- |
| Cash and cash equivalents (Balance Sheet) | 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 (Income Statement) | Look at any large purchases of assets/equipment during the year or significant depreciation expenses, compared with totals 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] |  |  |

## 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:*** *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 |
| --- | --- | --- |
|  |  |  |
|  |  |  |
|  |  |  |
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