

Financial Management 101: Preparing for Grant Proposals

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In General.....

- Research, research, research your potential funder
- Build a relationship with the funder
- Follow the funder's guidelines
- Think beyond \$\$\$
 - > Volunteers, technical assistance, in-kind, etc.
- Don't give the impression that your organization and its programs depend on one individual.
- How will you fund project once grant money runs out?

In General...

- ◉ Be sure the budget math is accurate.
- ◉ The budget should be neither padded nor too skimpy - and consistent with the proposal narrative.
- ◉ Present a balanced budget (both for organization and for project for which requesting funds)
- ◉ Generally don't request > 25%/30% of project budget
- ◉ Find creative ways to cover operating costs.
 - > % of executive director salary
 - > % of occupancy costs

Key Documents

- ◉ Form 990 (public document)
- ◉ Audited financial statements
- ◉ Annual budget
- ◉ Project budget

Key Concepts for Grantmakers

- ◉ Sustainability
 - > Of organization
 - > Of project
- ◉ Capacity
- ◉ Accountability
- ◉ Alignment with (funder's) priorities

SELF – EVALUATION

Financial Statement Considerations

- ◉ Ready source of cash (good liquidity)
- ◉ Good revenue mix (diversification)
- ◉ Positive and growing (or sustained) net assets
 - >
- ◉ Operating reserve or a working plan to establish one
 - > If there is a deficit, is there a prior year cash reserve to cover it?
 - > Are there sufficient resources to ensure stable programming?
- ◉ Reasonable overhead percentage
- ◉ Timely reporting (i.e., management and board hold themselves accountable for financial stability)

How financially secure is the organization?

- ◉ Meeting current obligations?
 - > Access to line of credit for short term needs?
- ◉ Cash reserve?
 - > Are the cash reserves properly invested?
- ◉ Endowment?
 - > Board restricted
 - > Donor restricted
- ◉ Dependent upon a certain funder or funding source? If so, are you identifying opportunities to become more self sufficient?

How efficient is the organization?

- ◉ What is the cost per unit and how does it compare to others?
- ◉ What is the fundraising cost per dollar?
- ◉ What percent of total costs are management and general?

How well do you plan?

- ◉ Compare budget to actual...
- ◉ Do they monitor their budget to actual on an ongoing basis and make adjustments as necessary?
- ◉ Is there a long-term financial plan?
 - > Is this tied to a strategic plan?

Reviewing Revenues

- ◉ Board of Directors “participation”, i.e., do 100% of board members contribute?

RATIOS

Calculating from Form 990

Sustainability/Capacity

Not-for-Profit Specific

Ratios – what they indicate

- ◉ Balance spent on mission (program) in relation to total expenses (higher number is better)

- > Total Program Service Expenses should be at least 65%Total Expenses

$$\frac{\text{Total Program Expenses}}{\text{Total Expenses}}$$

Program Services
to Total Expense

- ◉ Relationship between overhead expenses to total expenses (lower number is better)

- > Management, General and Fundraising should be no more than 35%

$$\frac{\text{Total fund-raising, mgmt \& general expenses}}{\text{Total Expenses}}$$

FR, G&A to
Total Expense



Calculating the Ratios – Mission/Administration

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

<i>Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.</i>	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the U.S. See Part IV, line 21 . . .	NONE			
2 Grants and other assistance to individuals in the U.S. See Part IV, line 22	50,050.	50,050.		
23 Insurance	357,857.	7,924.	349,933.	
24 Other expenses. Itemize expenses not covered above. (Expenses grouped together and labeled miscellaneous may not exceed 5% of total expenses shown on line 25 below.)				
a RESEARCH & DEVELOPMENT	93,165.	91,744.	553.	868.
b EQUIPMENT & EXHIBITIONS	848,727.	775,903.	8,088.	64,736.
c PROGRAMS & ACTIVITIES	1,152,119.	939,780.	207,597.	4,742.
d				
e				
f All other expenses				
25 Total functional expenses. Add lines 1 through 24f	31,237,834.	23,444,695.	5,659,646.	2,133,493.

75%

Program Expenses

25%

Fundraising, Administrative

Ratios – what they indicate

- ◉ Efficiency of fundraising (lower number is better)
 - > Total Fund Raising Expenses should be no more than 35% of total Related Contributions
 - > Factors affecting fundraising costs

$$\frac{\text{Total Fund-Raising Expenses}}{\text{Total Related Contributions}}$$

FR Expense to
Funds Raised

Calculating the Ratios – Fundraising Efficiency

Part VIII Statement of Revenue			35-0867985			
			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a			
	b	Membership dues	1b			
	c	Fundraising events	1c	19,350.		
	d	Related organizations	1d	426,544.		
	e	Government grants (contributions)	1e	4,516,488.		
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	3,509,754.		
	g	Government contributions included in lines 1a-f		164,478.		
	h	Total. Add lines 1a-1f		8,472,136.		

Part IX, line 25D: Fundraising Expenses: \$2,133,493

Part VIII Form 990, line 1: Contributions:
EXCLUDING GOVERNMENT GRANTS:

Fundraising Expenses/Related Contributions: 61%
(\$3,509,754)

INCLUDING GOVERNMENT GRANTS:

Fundraising Expenses/All Contributions: 27%
(\$8,190,720)

Adequacy of Resources

Ratios – what they indicate

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- Ability to pay current liabilities as they mature (higher number is better)

Quick Ratio

$$\frac{\text{Cash and Cash Equiv}}{\text{Current Liabilities}}$$

- Ability to pay current debt with only cash and cash equivalents (higher number is better)

Debt to Equity Ratio

$$\frac{\text{Total Liabilities}}{\text{Net Assets}}$$

- Measures the proportion of assets provided by debt.
- High values indicate future liquidity problems or reduced capacity for future borrowing.

Calculating the Ratios – Current Ratio

What are the current assets???

Form 990 (2008)

35-0867985

Page 11

Part X Balance Sheet

		(A)		(B)	
		Beginning of year		End of year	
Assets	1	Cash - non-interest-bearing	45,638.	1	45,638.
	2	Savings and temporary cash investments	2,954,649.	2	4,788,362.
	3	Pledges and grants receivable, net	5,034,700.	3	5,037,309.
	4	Accounts receivable, net	403,146.	4	1,899,459.
	5	Receivables from current and former officers, directors, trustees, key employees, or other related parties. Complete Part II of Schedule L		5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L		6	
	7	Notes and loans receivable, net		7	
	8	Inventories for sales or use	312,249.	8	281,244.
	9	Prepaid expenses and deferred charges	710,106.	9	200,700.
	10a	Land, buildings, and equipment: cost basis	116,487,319.		
	b	Less: accumulated depreciation. Complete Part VI of Schedule D.	45,327,800.		
			66,436,926.	10c	71,159,519.
	11	Investments - publicly traded securities.	224,120,719.	11	134,756,567.
	12	Investments - other securities. See Part IV, line 11.	91,940,401.	12	85,027,509.
	13	Investments - program-related. See Part IV, line 11		13	
	14	Intangible assets		14	
15	Other assets. See Part IV, line 11	18,517,780.	15	18,659,197.	
16	Total assets. Add lines 1 through 15 (must equal line 34)	410,476,314.	16	321,855,504.	
17	Accounts payable and accrued expenses	2,757,359.	17	4,405,845.	



Part X, Lines 1 – 9: \$12,252,712

Calculating the Ratios – Current Ratio

What are the current liabilities???

Form 990 (2008) 35-0867985 Page 11

Part X Balance Sheet		(A) Beginning of year	(B) End of year
Liabilities	17 Accounts payable and accrued expenses	3,757,358.	17 4,405,845.
	18 Grants payable		18
	19 Deferred revenue	761,304.	19 536,921.
	20 Tax-exempt bond liabilities	46,775,000.	20 52,180,000.
	21 Escrow account liability. Complete Part IV of Schedule D		21
	22 Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22
	23 Secured mortgages and notes payable to unrelated third parties		23
	24 Unsecured notes and loans payable.		24
	25 Other liabilities. Complete Part X of Schedule D	723,084.	25 1,978,048.
	26 Total liabilities. Add lines 17 through 25	52,016,746.	26 59,100,814.

Lines 17 – 19 on Part X: \$4,942,766

Calculating the Ratios

Current Ratio	<u>Current Assets</u>	<u>12,252,712</u>	2.48
	Current Liabilities	\$4,942,766	

Ability to pay current liabilities as they mature (higher number is better)
Should be great than 1.0

Quick Ratio	<u>Cash and Cash Equiv</u>	<u>\$4,834,000</u>	0.98
	Current Liabilities	\$4,942,766	

Ability to pay current debt with only cash and cash equivalents (higher number is better)
Want this to be as close to (or greater than) 1.0 as possible

Calculating the Ratios – Debt to Equity

Form 990 (2008)

35-0867985

Page 11

Part X Balance Sheet

		(A) Beginning of year	(B) End of year
25	Other liabilities. Complete Part X of Schedule D	723,084.	1,978,048.
26	Total liabilities. Add lines 17 through 25.	52,016,746.	59,100,814.
Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.			
27	Unrestricted net assets	317,331,841.	210,231,282.
28	Temporarily restricted net assets	21,558,400.	32,954,081.
29	Permanently restricted net assets	19,569,327.	19,569,327.
Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.			
30	Capital stock or trust principal, or current funds		
31	Paid-in or capital surplus, or land, building, or equipment fund		
32	Retained earnings, endowment, accumulated income, or other funds		
33	Total net assets or fund balances	358,459,568.	262,754,690.
34	Total liabilities and net assets/fund balances	410,476,314.	321,855,504.

Part XI Financial Statements and Reporting

Calculating the Ratios

Debt to
Equity Ratio

Total Liabilities
Net Assets

- 59,100,814
\$262,754,690

0.22

Indicates the balance between "equity" and debt
The greater the number, the "more leveraged" the organization
Want this to be as low as possible - at least less than 1.0

Ratios – what they indicate

Defensive
Interval

Cash + Marketable Securities
+ Receivables
Average Monthly Expenses

- Reflects how many months the organization could operate if no additional funds were received.

Calculating the Ratios – Defensive Interval

Form 990 (2008)

35-0867985

Page 11

Part X Balance Sheet

		(A)		(B)		
		Beginning of year		End of year		
Assets	1	Cash - non-interest-bearing	45,638.	1	45,638.	
	2	Savings and temporary cash investments	2,954,649.	2	4,788,362.	
	3	Pledges and grants receivable, net	5,034,700.	3	5,037,309.	
	4	Accounts receivable, net	403,146.	4	1,899,459.	
	5	Receivables from current and former officers, directors, trustees, key employees, or other related parties. Complete Part II of Schedule L		5		
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L		6		
	7	Notes and loans receivable, net		7		
	8	Inventories for sales or use	312,249.	8	281,244.	
	9	Prepaid expenses and deferred charges	710,106.	9	200,700.	
	10a	Land, buildings, and equipment: cost basis	10a	116,487,319.		
	b	Less: accumulated depreciation. Complete Part VI of Schedule D.	10b	45,327,800.		
				66,436,926.	10c	71,159,519.
	11	Investments - publicly traded securities	224,120,719.	11	134,756,567.	
	12	Investments - other securities. See Part IV, line 11	91,940,401.	12	85,027,509.	
	13	Investments - program-related. See Part IV, line 11		13		
	14	Intangible assets		14		
15	Other assets. See Part IV, line 11	18,517,780.	15	18,659,197.		
16	Total assets. Add lines 1 through 15 (must equal line 34)	410,476,314.	16	321,855,504.		
17	Accounts payable and accrued expenses	2,757,359.	17	4,405,845.		

Part X, Lines 1 – 5: \$11,770,768

Part X, Lines 11 – 13: \$219,784,076



Calculating the Ratios – Defensive Interval

Part I Summary				
Activities & Governance	1	Briefly describe the organization's mission or most significant activities: <u>THE MISSION OF THE CHILDREN'S MUSEUM OF INDIANAPOLIS, INC. IS TO CREATE EXTRAORDINARY LEARNING EXPERIENCES THAT HAVE THE POWER TO TRANSFORM THE LIVES OF CHILDREN AND FAMILIES.</u>		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its assets.		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	34
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	31
	5	Total number of employees (Part V, line 2a)	5	410
	6	Total number of volunteers (estimate if necessary)	6	260
	7a	Total gross unrelated business revenue from Part VIII, line 12, column (C)	7a	2,034,649.
	b Net unrelated business taxable income from Form 990-T, line 34	7b	1,758,296.	
Revenue			Prior Year	Current Year
	8	Contribution and grants (Part VIII, line 1h)	10,402,078.	8,472,136.
	9	Program service revenue (Part VIII, line 2g)	7,014,868.	7,294,298.
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	38,390,205.	12,644,441.
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	866,851.	1,197,125.
	12	Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	56,674,002.	29,608,000.
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	22,500.	50,050.
	14	Benefits paid to or for members (Part IX, column (A), line 4)	NONE	NONE
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	12,027,262.	13,966,271.
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	NONE	NONE
		b Total fundraising expenses, Part IX, column (D), line 25	2,133,493.	
	17	Other expenses (Part IX, column (A), lines 11a-11d, 11f-24f)	17,420,514.	17,221,513.
18	Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	29,470,276.	31,237,834.	

Part I, Line 18: \$31,237,834

Calculating the Ratios

Defensive
Interval

$$\frac{\text{Cash + Marketable Securities} + \text{Receivables}}{\text{Average Monthly Expenses}} = \frac{\$231,554,844}{\$2,653,103}$$

87.3 months

Calculating Average Monthly Expenses:

$$\frac{\text{Total Annual Expenses}}{12} = \frac{31,837,234}{12} = 2,653,103$$

Ratios – what they indicate

Liquid Funds
Indicator

Total Net Assets –
Restricted Net Assets –
Fixed Assets
Average Monthly Expenses

- Also determines the number of months of expenses that can be covered by existing assets

The liquid funds indicator is similar to the defensive interval in its use but is more conservative in removing assets with restrictions on them from the calculation.

Part I Summary

Net Assets or Fund Balances		Beginning of Year		End of Year	
20	Total assets (Part X, line 16)	410,476,314.		321,855,504.	
21	Total liabilities (Part X, line 26)	52,016,746.		59,100,814.	
22	Net assets or fund balances. Subtract line 21 from line 20.	358,459,568.		262,754,690.	

Part I, line 22: Total Net Assets

Part X Balance Sheet

		(A)		(B)	
		Beginning of year		End of year	
9	Prepaid expenses and deferred charges		710,106.		200,700.
10a	Land, buildings, and equipment: cost basis	10a	116,487,319.		
b	Less: accumulated depreciation. Complete Part VI of Schedule D.	10b	45,327,800.	66,436,926.	10c 71,159,519.
27	Unrestricted net assets		317,331,841.	27	210,231,282.
28	Temporarily restricted net assets		21,558,400.	28	32,954,081.
29	Permanently restricted net assets		19,569,327.	29	19,569,327.

Part X, line 10: Fixed Assets

Part X, lines 28 & 29: Restricted Net Assets = \$34,523,408

Calculating the Ratios

Liquid Funds
Indicator

$$\frac{\text{Total Net Assets} - \text{Restricted Net Assets} - \text{Fixed Assets}}{\text{Average Monthly Expenses}}$$

59.2 months

The liquid funds indicator is similar to the defensive interval in its use but is more conservative in removing assets with restrictions on them from the calculation.

Diversification of Revenues

Revenue Ratios:

$$\frac{\text{Revenue Source}}{\text{Total Revenue}}$$

Seven revenue sources are analyzed in order to establish what proportion each of these revenue streams contributes to the organization's total revenues. These sources are:

1. Public contributions
2. Government grants
3. Program service revenues
4. Dividends, investment earnings and interest
5. Net (inventory) sales
6. Admissions/Membership Dues
7. Special events
8. Other

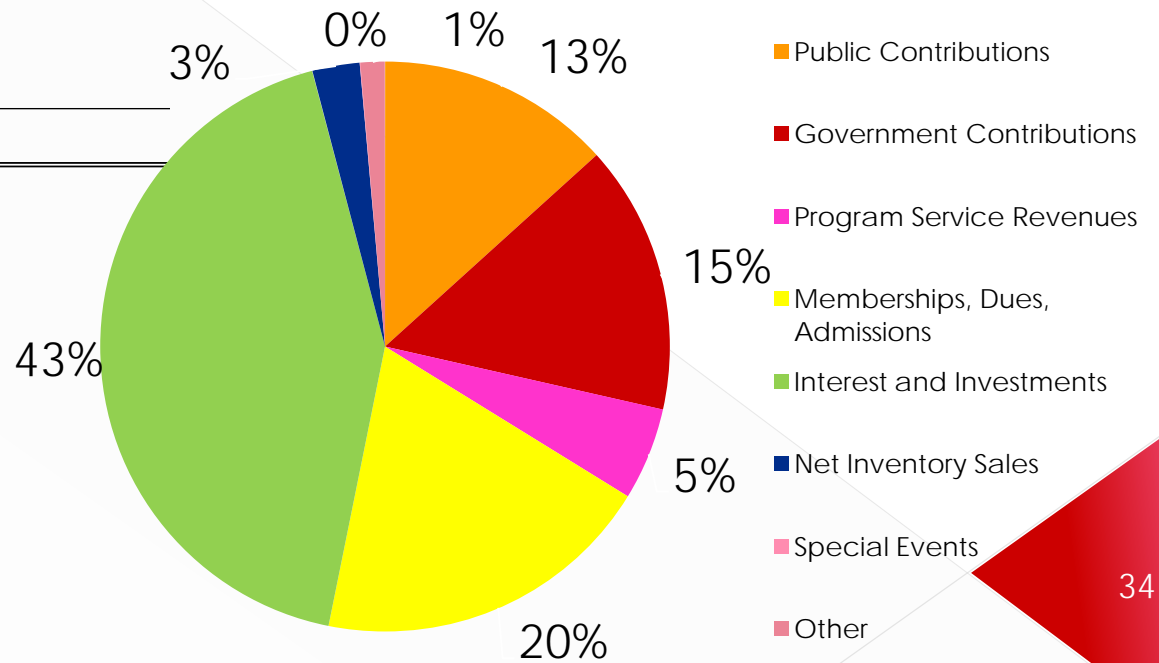
Part VIII: Statement of Revenue

		(A) Total revenue	(B) Related or savings function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Part VIII Statement of Revenue 35-0867985					
Contributions, gifts, grants and other similar amounts	1a Federated campaigns	1a			
	b Membership dues	1b			
	c Fundraising events	1c	19,350.		
	d Related organizations	1d	426,564.		
	e Government grants (contributions)	1e	4,516,488.		
	f All other contributions, gifts, grants, and similar amounts not included above	1f	3,509,754.		
	g Noncash contributions included in lines 1a-1f: \$		164,478.		
	h Total. Add lines 1a-1f.		8,472,136.		
Program Service Revenue	Business Code				
	2a ADMISSIONS RECEIPTS		3,052,959.	3,052,959.	
	b MEMBERSHIP AND DUES		2,684,060.	2,684,060.	
	c PROGRAM RECEIPTS		1,557,279.	1,557,279.	
	d				
	e				
	f All other program service revenue				
g Total. Add lines 2a-2f.		7,294,298.			
Other Revenue	3 Investment income (including dividends, interest, and other similar amounts)		6,589,069.		6,589,069.
	4 Income from investment of tax-exempt bond proceeds		NONE		
	5 Royalties		323,269.		323,269.
		(i) Real (ii) Personal			
	6a Gross Rents	249,625.			
	b Less: rental expenses	259,893.			
	c Rental income or (loss)	-10,268.			
	d Net rental income or (loss)		-10,268.	-10,268.	
	7a Gross amount from sales of assets other than inventory	(i) Securities (ii) Other			
		220,715,720. 54,269.			
	b Less: cost or other basis and sales expenses	213,996,388. 718,229.			
	c Gain or (loss)	6,719,332. -663,960.			
	d Net gain or (loss)		6,055,372.	2,044,917.	4,010,455.
	8a Gross income from fundraising events (not including \$ 19,350. of contributions reported on line 1c). See Part IV, line 18.	a	4,000.		
	b Less: direct expenses	b	9,490.		
	c Net income or (loss) from fundraising events		-5,490.	-5,490.	
	9a Gross income from gaming activities. See Part IV, line 19.	a			
b Less: direct expenses	b				
c Net income or (loss) from gaming activities		NONE			
10a Gross sales of inventory, less returns and allowances	a	1,567,931.			
b Less: cost of goods sold	b	771,578.			
c Net income or (loss) from sales of inventory		796,353.	796,353.		
Miscellaneous Revenue		Business Code			
11a COAT CHECK		38,968.		38,968.	
b STROLLER RENTAL		10,417.		10,417.	
c WAGON RENTAL		5,545.		5,545.	
d All other revenue		38,331.	38,331.		
e Total. Add lines 11a-11d.		93,261.			
12 Total Revenue. Add lines 1h, 2g, 3, 4, 5, 6d, 7d, 8c, 9c, 10c, and 11e.		29,608,000.	8,123,492.	2,034,612.	10,977,223.



Diversification of Revenue

Public Contributions	\$ 3,936,298.00
Government Contributions	\$ 4,516,488.00
Program Service Revenues	\$ 1,557,279.00
Memberships, Dues, Admissions	\$ 5,737,019.00
Interest and Investments	\$ 12,644,441.00
Net Inventory Sales	\$ 796,353.00
Special Events	\$ 13,860.00
Other	\$ 406,262.00
	<u>\$ 29,608,000.00</u>



Ratio - Revenue Comp. of Org.

Contributions and Grants

$$CG = \frac{\text{Revenue from Contributions and Grants}}{\text{Total Revenue}}$$

The contributions and grants ratio measures the composition of organization funds coming from these sources. Organizations can use this indicator to determine long and short-term trends in line with strategic funding goals that can change the organizational revenue composition in this area.

28%

Ratio - Revenue Comp. of Org.

Government Grants

$$\text{GG} = \frac{\text{Revenue from Government Grants}}{\text{Total Revenue}}$$

The government grants ratio measures the composition of organization funds coming from government sources. Similar to the contributions and grants ratio, organizations can use this ratio to determine long and short-term trends and tie strategic goals to changing the organizational revenue composition in this area.

15%

Assessing Net Assets

Form 990 (2008)

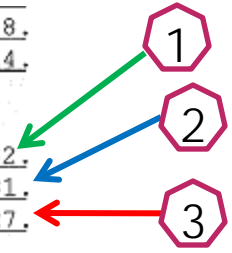
35-0867985

Page 11

Part X Balance Sheet

		(A) Beginning of year		(B) End of year
25	Other liabilities. Complete Part X of Schedule D	723,084.	25	1,978,048.
26	Total liabilities. Add lines 17 through 25.	52,016,746.	26	59,100,814.
Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
27	Unrestricted net assets	317,331,841.	27	210,231,282.
28	Temporarily restricted net assets	21,558,400.	28	32,954,081.
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Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.				
30	Capital stock or trust principal, or current funds		30	
31	Paid-in or capital surplus, or land, building, or equipment fund		31	
32	Retained earnings, endowment, accumulated income, or other funds		32	
33	Total net assets or fund balances	358,459,568.	33	262,754,690.
34	Total liabilities and net assets/fund balances.	410,476,314.	34	321,855,504.

Net Assets or Fund Balances



1. **Unrestricted:** Can be used for operations and programs
2. **Temporarily Restricted:** Must be used for specific purpose
3. **Permanently Restricted:** Can NEVER be spent (but, can spend earnings)

GOVERNANCE & MANAGEMENT

Information Obtained from Form 990

Accountability

Governance

- ⊙ One of the most important new sections of the form 990
- ⊙ This section covers policies that the organization may or may not have in place
- ⊙ It's important to remember that these are not policies required by the IRS
 - > BUT they are required to be reported on
 - > Information included on Form 990 for transparency purposes
 - > Future regulation?

Policies

- ◉ Conflict of Interest
- ◉ Whistleblower
- ◉ Document Retention and Destruction
- ◉ Process for Determining Executive Compensation
- ◉ Joint venture policy (if applicable)
- ◉ Policies governing chapters, branches or affiliates (if applicable)
- ◉ Documentation of all meetings by the governing body and all committees
- ◉ Availability of governing documents to the public

QUESTIONS?

“More people should learn to tell their dollars where to go instead of asking them where they went.”

- Roger Ward Babson, (1875–1967) American financial statistician

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