What Grantmakers Look for in Financial Information

The following information was compiled by the Buell Foundation staff and reflects what we believe to be true. This information does not reflect the opinions of all funders.

The level of expertise in interpreting financial reporting varies widely among funders. What may be true for one funder may not be true for another. For some funders, numbers alone tell the story. For others, charts and graphs make it easier to unravel the financial picture. Still others want to sit down and get to know the nonprofit personnel and have a discussion about the financial situation. No matter what the style of the funder, it is important to recognize that all want to have a broad understanding of the entire nonprofit organization including their financial condition.

If you have questions about the financial information in your grant application or report for the Buell Foundation, please call one of our Program Officers at 303-744-1688.

Financial Information Includes:

* Financial Statements (Statement of Financial Position or Balance Sheet & Statement of Activities or Income and Expense Statement)
* Budgets (including budget notes)
* Cash Flow Statements
* Audits or Reviews
* IRS 990s

Accurate, timely, and consistent financial information serves many purposes:

* Current data and information for internal review by management
* Status report for the board to help them make informed policy decisions
* Planning purposes for future projects (capital, endowment, expansion)
* Information for potential funders/sponsors
* For use by bankers and financial institutions (loans, credit cards, etc.)

# Red Flags

When Program Officers review an organization and its financial position, several items catch our attention. Following are “red flags” that we have seen throughout years of grant review.

General Financial Information

* Grant requests that are unreasonably large (This sometimes signals poor planning and unrealistic expectations.)
* Requested financial information is not included
* Inaccurate math
* An organization that seems to have bad or sloppy accounting practices
  + Amounts that are shown differently on financial statements, budgets, 990s, Common Grant Application Summary Sheet
  + Financial information in improper accounting format
  + Financial information that is old and out-of-date\* (especially internal reports)

\* generally more than 3 months for current year internal documents

* Inability of staff to answer questions on budgets and other financial statements and reports, including 990s
* For some funders, less than 100% giving from the board of directors

Budgets

* Budgets that show greater expense than income (without an explanation)
* Incomplete program budget (only detail is for items requested in the grant rather than the full cost of the program or project)
* Budget amounts that appear to be “fudged” – amounts dropped in to make things balance
* Too much funding from one source
* Lack of diversification in funding sources
* Assuming grant income from a funder *before* it has been approved
* Program budgets that do not accurately reflect or capture overhead costs
* Buried or extremely skewed administrative costs
* Administrative and fundraising costs in excess of ~25% (percent varies foundation to foundation)
* No explanation for large variances from one year to the next in the budget (both income and expenses)
* No explanation for large variances from last year’s actuals to this year’s budget (income and expenses)
* Start-up organizations without “anticipated” budget information
* Budgets that are not formally approved by the board – *generally prior to the start of the fiscal year*

Financial Statements

* Negative cash balances or negative Net Assets (Equity)
* An organization that is building rich but cash poor
* An organization that has received funding for future activities but does *not* have a corresponding dollar amount in cash assets and/or receivables
* Current liabilities in excess of current assets (particularly for an extended period of time)
* Unreasonable payroll liabilities (perhaps indicating that taxes have not been paid)
* Large balance of accounts payable relative to the size of the organization
* Undefined debt
* Loans to officers or key staff
* Long-term debt in an amount or format that is beyond the organization’s capacity to manage (e.g. balloon payment)
* Uncommitted reserves in excess of 9-12 months operating costs (without an explanation)
* Lack of clarity on “board designations” versus endowments
* Monthly Statement of Activities without a budget comparison
* Net “Loss” at the end of the year (without an explanation)
* Excess “Profit” at the end of the year (without an explanation)
* Unclear information on “net” proceeds from a special event

Audits

* Incomplete audit reports (Notes in the back are integral part of report)
* Any audit that does not have an “unqualified” opinion
* Large ($500,000 – $1,000,000+) organizations that do not have audits done annually

# Final Recommendations

* Be accurate and honest; your organization’s reputation is on the line.
* If there is bad news, don’t hide it.
* Pay attention to guidelines; they can vary greatly.
* Know the financial requirements of the funders, both for requests and for reports.
* Remember that a funder’s purpose is to give money away. Help the funder do his/her job of due diligence, and your organization will reap the benefit!
* For more information, please reference Financial Attachments section of the User’s Guide for the Common Grant Application (CGA) - pages 24-29 [www.coloradocommongrantforms.org](http://www.coloradocommongrantforms.org)