

The Capital Conversion Failure Pattern

How Organizations at the Mission-Capital Threshold Stall — and How Structural Advisory Resolves It

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0 How to Read This Case Study

This document presents three composite case narratives drawn from observed patterns across the StratzGroup advisory practice. Each narrative is anonymized — no organization is named, and each case combines elements from multiple observed situations to protect client confidentiality and to illustrate the structural pattern more completely than any single engagement could.

The purpose is not to prove that StratzGroup always produces the outcomes described. It is to show, with sufficient specificity, that the structural pattern exists — that real organizations experience the Failure of Success condition, that the Structural Readiness Sprint identifies it precisely, and that specific remediation produces specific results. Evaluate whether your organization's situation resembles the case pattern, not whether the outcome is guaranteed.

A note on figures: Outcome claims in these cases — "\$750K CDFI loan closed," "portfolio deployment stall rate reduced," "\$2.1M Section 174A exposure identified" — are composite estimates based on practitioner observation, not audited financial results. Individual outcomes depend on organizational context, implementation execution, legal counsel quality, and market conditions that StratzGroup cannot control or guarantee.

1 Case A: The CDFI Loan That Should Have Closed

IMPACTSTRATZ — STRUCTURAL READINESS SPRINT™ — NONPROFIT / HYBRID VENTURE

Situation

A Chicago-area workforce development nonprofit — \$4.2M annual budget, 22 staff, 12-year operating history — had developed a dual-arm model: a 501(c)(3) workforce training program serving 300+ participants annually, and a growing fee-for-service employer partnership program generating \$800K in earned revenue. The organization had secured a letter of intent for a \$750,000 CDFI community facilities loan. The loan had been in the closing process for 11 months.

The ED's diagnosis was that the CDFI's requirements were "moving targets." The board's diagnosis was that the CDFI was being overly cautious given the organization's track record. Neither diagnosis was correct.

What the Structural Readiness Sprint Found

#	P	DOMAIN	GAP IDENTIFIED	WHY THE LOAN WAS STALLING
1	1	Governance	No delegation of authority policy existed. The board had never formally documented which decisions required board approval vs. ED approval. The CDFI's loan documents required a board resolution authorizing the transaction — and the board could not produce evidence that it held formal authority to approve the specific transaction structure.	CDFI counsel required a board resolution demonstrating documented governance authority. The resolution was produced; the underlying authority policy was not. The CDFI returned the resolution twice citing insufficiency.
2	1	Entity Structure	The employer partnership program operated within the 501(c)(3) entity without formal entity separation. The CDFI's loan structure required the collateral property to be owned by an entity that could service commercial debt — the nonprofit's structure created UBIT exposure and a security interest complication that CDFI legal had flagged internally but not communicated directly to the organization.	The CDFI could not confirm the security interest structure was clean given the UBIT exposure. Each new documentation submission revealed another unresolved dimension of the entity structure question.
3	2	IP Ownership	The workforce training curriculum — the organization's primary program asset — had been developed by the founding program director under a contractor arrangement. No work-for-hire agreement had been executed. IP ownership was legally ambiguous.	Not the direct cause of the loan stall. Identified during document review and flagged as a Priority 2 Counsel Bridge item. Had the organization pursued a commercial licensing arrangement (which it was actively considering), this gap would have been the next stall.
4	3	Impact Evidence	Three primary impact claims — placement rate, wage premium, and 12-month employment retention — were L3 evidence: staff-compiled from employer self-reports without a documented collection methodology or independent verification.	Not a direct loan stall factor, but the CDFI's program officer had noted internally that the evidence quality fell below the CDFI's portfolio standard. The claims would not survive LP reporting requirements at a future capital raise.

Table A-1. Structural Readiness Sprint findings for Case A. Priority 1 items required resolution before loan closing; Priority 2 items deferred to 90-day action plan.

Counsel Bridge Engagement and Remediation

The Sprint produced three Counsel Bridge items: (1) delegation of authority policy — governance authority documentation; (2) entity structure and UBIT analysis — tax classification and entity structure review; (3) IP chain-of-title for the workforce curriculum — IP ownership and work-for-hire. The Counsel Bridge Question Pack organized all three with the business context required for efficient legal engagement.

Counsel engagement took 18 working days. The delegation of authority policy was drafted and adopted by board resolution. The UBIT analysis confirmed no current liability under the existing structure but identified a future exposure scenario — creating the basis for a proactive entity separation plan. The IP chain-of-title question was resolved through a retroactive work-for-hire acknowledgment that counsel negotiated with the founding program director.

Outcome

Loan closing: The \$750,000 CDFI loan closed 34 days after Counsel Bridge remediation was complete — a composite estimate; actual timelines depend on CDFI counsel review speed, board scheduling, and counsel capacity. The two Priority 1 structural gaps identified in the first week of document review had been the cause of the prior 11 months of stall.

Downstream structural value: The delegation of authority policy adopted as a loan closing requirement became the organization's ongoing governance document. The UBIT analysis produced a proactive entity separation plan the organization is now implementing — a priority it had not identified before the Sprint.

2 Case B: The Foundation Portfolio Deployment Stall

IMPACTSTRATZ — PORTFOLIO READINESS ASSESSMENT — FOUNDATION CHANNEL

Situation

A mid-size Chicagoland foundation — \$12M in annual grant-making — had set a strategic goal of increasing the proportion of capital reaching BIPOC-led organizations in specific impact domains. Program officers consistently identified strong mission-aligned organizations in the target population. Grants were made. And yet, 18 months into the initiative, the foundation's board was examining data showing a troubling pattern: more than 40% of organizations receiving significant grants (\$250,000+) had experienced material implementation stalls within 24 months — governance crises, reporting failures, funder relationship deterioration, or capital expansion failures.

The foundation's initial diagnosis was organizational capacity — the organizations lacked the operational infrastructure to manage capital at the scale being granted. A Portfolio Readiness Assessment reframed the diagnosis.

What the Portfolio Assessment Found

A Portfolio Readiness Assessment of 10 grantee organizations produced a readiness distribution the foundation had not previously been able to see at portfolio level:

READINESS DOMAIN	VERIFIED (avg)	ABSENT (avg)	PORTFOLIO-LEVEL STRUCTURAL IMPLICATION
Governance Architecture	3.2 of 9 items	5.8 of 9 items	Seven of 10 organizations lacked a formal delegation of authority policy; five lacked documented COI processes. Boards were engagement-willing but infrastructure-absent.
Entity & Structural Clarity	2.1 of 5 items	2.9 of 5 items	Four organizations had earned revenue activity without UBIT analysis; three had entity structures incompatible with the next-stage capital instruments they were planning to pursue.
Impact Evidence Quality	2.3 claims at L1/L2 per org	4.7 claims at L3/L4 per org	The foundation's grantee reporting requirements were satisfied by L3 evidence. But 7 of 10 organizations had told program officers they planned to seek CDFI or impact investment capital within 24 months. Their impact evidence would not survive that diligence.
Capital Transaction Readiness	2 of 10 Ready	8 of 10 Not Ready	Of the 8 not-ready organizations: 5 were Remediable within 60–90 days; 3 required structural redesign before capital transaction pursuit.

Table B-1. Portfolio Readiness Assessment composite findings across 10 grantee organizations. Figures are composite estimates from observed practice patterns, not from a single foundation engagement.

The Reframe: From Capacity Problem to Structural Problem

The portfolio assessment reframed the foundation's diagnosis. The grantee organizations were not under-resourced. They were under-structured. The governance, entity, and evidence infrastructure required to deploy and scale the capital they were receiving had not been built — not because the organizations lacked capacity in any conventional sense, but because the structural gaps had never been identified, named, or addressed as organizational priorities.

The foundation's program officers had not seen these gaps because pre-grant due diligence was designed to assess organizational quality — mission alignment, leadership strength, program track record — not structural readiness. The gaps were present before the grants were made. The grants did not cause them. But the grants accelerated the moment when the gaps produced consequences.

Response and Portfolio Outcome

Foundation response: The foundation modified its pre-grant due diligence process to include a Structural Readiness self-assessment as a required component. Organizations scoring above 6 on the seven-signal assessment were recommended for a full Structural Readiness Sprint before grant disbursement above \$150,000.

Portfolio outcome: In the 18 months following the portfolio assessment, program officers reported a subjective reduction in grantee implementation stall incidents. This is not a controlled comparison and reflects program officer perception rather than audited outcome data.

3 Case C: The PE Technical Diligence — Section 174A and RegQoE™

ALPHASTRATZ — REGQOE™ — PRIVATE EQUITY HEALTHCARE IT

Situation

A Chicagoland private equity firm — mid-market healthcare IT focus — was performing due diligence on a platform acquisition target: a healthcare SaaS company with \$18M ARR, 60% gross margins, and a customer base of regional hospitals and health systems. The target's management team had represented that its R&D capitalization methodology was compliant with applicable accounting standards and that its software development cost structure was optimized for current tax treatment.

The AlphaStratz RegQoE™ engagement was commissioned as a technical supplement to the financial quality of earnings work being performed by the deal team's accounting advisors. The mandate: assess the target's regulatory compliance posture across HIPAA/HITECH, OBBBA/Section 174A, and FASB ASU 2025-06 — the three frameworks most consequential for healthcare IT valuations in the current deal environment.

What the RegQoE™ Analysis Found

REGULATORY DOMAIN	FINDING	MECHANISM OF EXPOSURE	ESTIMATED FINANCIAL IMPACT
OBBBA / Section 174A	Target had been amortizing domestic R&D expenditures over 5 years as expected under prior law — but had not assessed Section 174A treatment of its offshore development contractor costs, which constituted 31% of total R&D spend	Offshore development contractor costs are subject to 15-year amortization under Section 174A. Management's financial model was built on 5-year amortization for the full R&D stack — a Book-to-Tax Wedge not reflected in the target's representations	\$2.1M estimated tax liability exposure over the carry period; valuation model required adjustment — deal team's LOI price was based on the misrepresented tax posture
HIPAA / HITECH	Three of the target's ten largest customer BAAs were based on a template not updated since 2019 — predating the 2023 HIPAA Security Rule requirements — and one BAA had lapsed entirely	In a post-acquisition scenario, the acquirer inherits the BAA compliance gap. A CMS audit targeting healthcare SaaS vendors in the target's market segment had been initiated in Q3 2025.	Remediation cost: \$45,000–\$80,000 for BAA rebuild. Audit exposure before remediation: \$250,000–\$1.9M under HIPAA Tier 3 violation structure
FASB ASU 2025-06	Target's internal-use software capitalization	Direct impact on target: \$340,000 in previously	\$340,000 direct EBITDA restatement; contract

	<p>policy was developed before FASB ASU 2025-06 and had not been updated to reflect clarified threshold requirements. Two cost categories the target was capitalizing are now explicitly required to be expensed.</p>	<p>capitalized costs must be restated as period expenses — reducing EBITDA in two prior periods. Indirect impact: potential renegotiation of two enterprise contracts where pricing was tied to reported cost structure.</p>	<p>renegotiation risk on two enterprise accounts</p>
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Table C-1. RegQoE™ analysis findings. Financial estimates are practitioner-derived and directional; they do not constitute a legal or accounting opinion. Specific regulatory exposures depend on the target's facts, applicable law at the closing date, and analysis by qualified professionals engaged by the deal team.

Deal Team Response and Outcome

The RegQoE findings were delivered 11 days before the LOI exclusivity period expired. The deal team used the findings in three ways: (1) the Section 174A exposure was used as the basis for a purchase price reduction negotiation — the \$2.1M estimated liability was partially reflected in a revised valuation multiple; (2) BAA compliance remediation was structured as a pre-close condition; (3) the FASB ASU 2025-06 restatement was handled as a post-close adjustment with an escrow mechanism covering the downside scenario.

Deal outcome: The acquisition closed. The deal team entered the investment with a specific remediation plan for each finding — not with undisclosed regulatory exposure that would surface during the hold period.

4 The Pattern That Connects All Three Cases

In every case, the structural problem was knowable before the consequence became visible. The CDFI loan stall was caused by gaps that existed before the organization applied for the loan. The foundation portfolio implementation failures were caused by structural gaps that existed before the grants were made. The PE regulatory exposure was present in the target before the diligence process began. The diagnostic's value is discovering these problems before they produce consequences that are more expensive than the discovery.

The structural gap identification methodology is the same across all three cases — Failure of Success framework, seven-domain evidence inventory, ImpactQoE evidence scoring, Counsel Bridge Question Pack. The application context differs. The analytical discipline is consistent. That consistency is what makes the StratzGroup diagnostic reliable across contexts: the framework applies wherever structured advisory gaps exist at the intersection of legal literacy, financial underwriting, and enterprise architecture.

COMMISSION A STRUCTURAL READINESS SPRINT™

If your organization is approaching a capital event, governance transition, or institutional partnership — and you want to know whether the structural gaps that stalled the organizations in these cases are present in yours — the Structural Readiness Sprint produces that answer in three weeks.

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