1. **Principles**
   UWPH believes that investing in strong organizations and communities is one way in which we can create a better life for everyone in our communities. As part of United Way’s commitment to ensuring the effectiveness and sustainability of the non-profit community, this financial capacity assessment policy has been developed.

2. **Purpose**
   This policy is intended to provide guidance for an agency in its financial planning and to assist United Way in its evaluation of an agency’s financial capacity.

3. **Definitions**
   3.1. **Financial Capacity**
       Financial capacity can be defined as “available organizational resources and relationships (both external and internal) that enable organizations to pursue their mission and fulfil their roles” (Canadian Council on Social Development, 2003, p 12).

   3.2. **Cash**
       Represents cash in all funds or total cash.

   3.3. **Receivables**
       Include accounts receivable and HST receivable.

   3.4. **Market Securities**
       Represents marketable securities (investments) in all funds or total marketable securities.

   3.5. **Restricted Endowments Funds**
       A reserve of money that can only be used for specific purposes. Two types:
       1. Temporarily restricted – to be used for certain purpose.
       2. Permanently restricted – principal to which interest is earned and only the interest income earned from same can be spent by the agency.

   3.6. **Net Asset**
       Total Assets minus Total Liabilities.

       Net assets can be classified into 3 subsections which include:
       (a) unrestricted net assets;
(b) temporarily restricted net assets; and 
(c) and permanently restricted net assets.

3.7. Deferred Revenue
Represent a liability because it is revenue that has not been earned.

3.8. Donation Revenue
Gift (cash) by legal person. Also includes gifts in kind.

3.9. Grant Revenue
Non-repayable funds typically to fund a specific project; e.g. United Way.

3.10. Fundraising Revenue
Revenues from specific events or initiatives

3.11. Fundraising Expense
Relate to raising fundraising revenue such as cost of holding events, requesting contributions, or salaries and wages for those individuals involved in the fundraising process.

4. Process
UWPH’s Community Impact & Allocations Committee (CIAC) will use the Financial Review Tool (All12f) to assess financial capacity for:
• An applicant when applying for New Initiative or Impact Funding.
• A Supported Partner (SP) receiving Impact Funding as part of our annual review.

The Financial Review Tool (All12f) is composed of five categories of review:

<table>
<thead>
<tr>
<th>Review Tool</th>
<th>Purpose</th>
<th>Calculation</th>
<th>Target Ranges</th>
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<tbody>
<tr>
<td>Efficiency1</td>
<td>Program Service Expense</td>
<td>Measures the efficiency of funds in relation to the mission of the non-profit</td>
<td>Program Service Expense/ Total Expenses</td>
</tr>
<tr>
<td>Management Control</td>
<td>Net Temporary Restricted Asset</td>
<td>Determines if the non-profit is using assets intended for future periods</td>
<td>(Temporarily Restricted Net Assets + Deferred Revenue)/ Cash &amp; Cash Equivalents</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Defensive Interval</td>
<td>Measures the resources available to support the non-profit</td>
<td>(Cash + Receivables + Marketable Securities)/ Average Monthly Expense</td>
</tr>
<tr>
<td>Quick</td>
<td>A measure of financial strength; the non-profit’s ability to cover short-term debt obligations</td>
<td>(Cash + Receivables + Marketable Securities)/ Current Liabilities</td>
<td>&gt; 1</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Savings Indicator</td>
<td>A measure of sustainability, useful for non-profits that</td>
<td>(Revenue-Expenses)/ Total Expenses</td>
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provide a service or sell products.

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<tr>
<td><strong>Net Change in Assets</strong></td>
<td>Measures the change in assets held</td>
<td>Net Assets Current Year - Net Assets Prior Year</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td>Useful for non-profits that carry debt</td>
<td>Average Total Debt/ Average Total Unrestricted Net Assets</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>Debt Servicing</td>
<td>Measure of the cash flow available to pay current debt obligations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[Revenue over (under) Expenses + Amortization + Interest Expense]/ [Current Long - Term Debt + Interest Expense]</td>
</tr>
</tbody>
</table>

1. This ratio is subject to interpretation during input and limited by discretionary disclosures by the SP and their accountants. If all other categories are within the threshold, no further due diligence should be undertaken. If further due diligence is required, UWPH staff should request details around Program Service Expenses as defined in the Financial Review Tool (All12f).

Audited Financial statements from the agencies will be collected with the funding application, as well as for each year in which funding is received. Supported Partners are required to provide UWPH with their most recent Audited financial statements no more than 5 months after their fiscal year end. For those Supported Partners where annual UWPH funding represents less than 5% of their annual revenues, a program budget for the particular initiative being supported by UWPH is to be provided concurrently with the Audited Financial Statements.

2. Unless approved for an exception from providing audited financial statements. See the Financial Reporting and Accountability to Donors section of the Community Impact & Allocations Manual.

5. **Procedure**

5.1. Financial statements will be collected by UWPH staff.

5.1.1. Supported Partners are required to submit financial statements within 5 months of their fiscal year end.

5.1.2. UWPH staff will track the fiscal year end dates for each Supported Partner and follow up if financials statements are not received within 5 months of their fiscal year end.

5.2. Financial statements will be forwarded to the Financial Review Subcommittee (as appointed at the beginning of every fiscal year).

5.3. Financial Review Subcommittee members will complete the Financial Review within 2 months of receiving the financial statements and report at the next CIAC meeting.

5.4. The Financial Review Subcommittee will comprise of two individuals holding college diplomas or university degrees in business or accounting, with preference to CPA designation(s). The individuals will be two active CIAC members or one CIAC member and 1 UWPH employee. There will be a lead and secondary designated, and this can rotate at the discretion of the two individuals.

5.5. The lead will input the financial data from all SPs into the Financial Review Tool (All12f). SPs will be flagged where they fall outside of the thresholds for the five categories noted in the above table. The secondary will repeat the data input for minimum of 25% of all entries (randomly), inclusive of any SPs the lead member flags.
for follow-up. Together, the two will confer the results of the inputs, review any discrepancies, and bring forth to the CIAC within the above noted 2 month period.

In the event that after the aforementioned financial review, the Agency falls outside the ideal target range for any of the review tools, CIAC will:

5.6. Determine whether the Agency needs to be contacted.
5.7. Appoint a UWPH staff or CIAC member to make contact with the Agency to setup a meeting to discuss the review.

Financial reviews will be included in the SP/Agency file as well as any communications with the Agency/SP regarding the review.