1. **Principles**

United Way Perth-Huron (UWPH) has a public responsibility to be a good steward of the monies entrusted to it by donors. To fulfill this responsibility, United Way must ensure that its funds are being used in the most effective and prudent manner to provide needed services to the community. As such, UWPH shall not contribute to the development or increase of an Undesignated (Unrestricted or General) Reserve or surplus when there are many needs in the community for which funds are required, nor will it fund an agency whose short-term viability is in question.

This policy is intended to provide direction for an agency in its financial planning and to assist United Way in its evaluation of an agency’s financial status while ensuring that funds are allocated where there is the greatest need.

The UWPH recognizes the funding challenges facing many community-based non-for-profit agencies. Yet, UWPH expects these agencies to exhibit responsible financial management practices including but not limited to some level of reserve to buffer the effect of unexpected funding shortfalls or expenditure increases.

2. **Definitions**

2.1. **Deficit**

A deficit represents an excess of expenditures incurred over funds received in a particular program, or for the overall organization, during a fiscal year.

2.2. **Surplus**

An operating surplus represents an excess of funds received over expenditures incurred by an agency during the fiscal year. This could result from the reduction of expenses or funds being received in excess of budget. It could also result when a budgeted expenditure is postponed from one year to the next.

2.3. **Reserve**

A reserve (also known as an accumulated surplus) is the total of surpluses retained over a number of years.

2.4. **Undesignated (Unrestricted or General) Reserve**

These are funds that do not have any:
2.5. **Endowment Fund**
This fund (or account) consists of property (often in the form of cash or investments acquired by gift or bequest), the income from which is used for general or specific purposes, according to the conditions attached to the gifts, and the principal of which must be maintained intact or applied to the purposes of the gift.

2.6. **Restricted Reserve**
These are funds that are restricted (in terms of use) by outside organizations or persons, as contrasted with funds over which the Agency has complete control and discretion.

2.7. **Designated Reserve**
These are funds set aside by an Agency’s Board of Directors for specifically designated, clearly spelled out purposes. These would include funds set aside for Capital Reserves.

3. **Guidelines**
Guidelines to Assess an Agency’s Undesignated (Unrestricted or General) Reserve will involve both a Quantitative and Qualitative assessment as follows:

3.1. **Quantitative Assessment**
A Defensive Interval ratio which measures the resources available to support the non-profit, measured in months. It is defined as the sum of Unrestricted Cash Reserves, Unrestricted Marketable Securities, and Receivables; all divided by average monthly expenses. The guideline range is 3 to 6 months dependent on other qualitative variables outlined below.

3.2. **Qualitative Assessment:**
- Reliability of the sources of funding (the greater the uncertainty of funds from a particular source, the greater the need for an adequate accumulated reserve to be maintained)
- Intended use of the accumulated reserve (operating deficits; postponed expenditures; repair/renewal of fixed assets; capital expansion; contingencies; etc.).
- Agency must specify accumulated reserve versus liabilities in order to assess reasonableness.
- Rate of growth of an accumulated reserve. (Interest on a designated accumulated reserve normally is credited to that fund.)
- Past use of an accumulated reserve.
- Percentage of the Agency’s revenue provided by United Way funding.

4. **Procedure**
In the event that after the aforementioned assessment, the Agency falls outside the ideal range for Defensive Interval, the UWPH will consider whether:

For Surplus':
• The Agency can demonstrate an intended use that will bring the Undesignated (Unrestricted or General) Reserve within the guideline range of 3-6 months within the fiscal year of funding; and/or
• The Agency can demonstrate an exceptional circumstance that necessitates the maintenance of a Undesignated (Unrestricted or General) Reserve in excess of the guideline range of 3-6 months.

For Deficit’s:
• The cash flow/funding cycle of the agency accommodates (Unrestricted or General) Reserves under the ideal range.

If an Agency cannot justify satisfactorily to UWPH the reason for an Undesignated (Unrestricted or General) Reserve outside of the suggested guidelines, the UWPH maintains the right to withhold any further funding to the Agency.

4.1. Deficit
UWPH will not provide funds to cover a deficit. In its stewardship role, UWPH is concerned with the viability of Supported Partners. To fulfill this responsibility, UWPH will give scrutiny to the causes, results, and management of a significant or recurring deficit.

4.2. Surplus
If during UWPH’s funding term, an agency does not disburse the program expenses, which have been approved by UWPH, the agency shall:
   1 Notify UWPH in writing of the amount that has not been spent, no later than twenty (20) days after the end of UWPH’s funding term.
   2 Repay funds allocated by UWPH and not spent on approved program expenses no later than thirty (30) days after the end of UWPH’s funding term, unless an agreement is made with UWPH otherwise.
   3 Returned funds will be re-invested into the community through funding streams based on UWPH’s focus areas and emerging needs.

4.3. Evident Unanticipated Surplus or Deficit
Because of the inherent complexities of budget issues and the distinct financial status of each Supported Partner, it is understood that discussions regarding surplus and deficit may need to occur beyond the normal community investment process to ensure a clear understanding of the causes, results and management of the situation. A Supported Partner should inform UWPH staff at any time during the year if a surplus or deficit that was not anticipated becomes evident.