



Financial Capacity Assessment for Supported Partners and Applicants Policy			
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Reference: CIAC Terms of Reference (Tor2), Supported Partner Funding Agreement (Agree2)

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

Represents a liability because it is revenue that has not been earned.

3.8. Donation Revenue

Gift (cash) by legal person (person or legal entity). 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 (Agency) 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:

	Review Tool	Purpose	Calculation	Target Ranges
Efficiency ¹	Program Service Expense	Measures the efficiency of funds in relation to the mission of the non-profit	Program Service Expense/ Total Expenses	> or = 65%
Management Control	Net Temporary Restricted Asset	Determines if the non-profit is using assets intended for future periods	(Temporarily Restricted Net Assets + Deferred Revenue)/ Cash & Cash Equivalents	< 1
Liquidity	Defensive ² Interval	Measures the resources available to support the non-profit	(Cash + Receivables + Marketable Securities – Accounts Payable - Current Deferred Income)/ Average Monthly Expense – Amortization)	3 to 6 months
	Quick	A measure of financial strength; the non-profit's ability to	(Cash + Receivables + Marketable Securities)/ Current Liabilities	> 1

		cover short-term debt obligations		
Sustainability	Savings Indicator	A measure of sustainability, useful for non-profits that provide a service or sell products.	(Revenue-Expenses)/ Total Expenses	Avoid a combination of negative savings indicator with poor liquidity ratios
	Net Change in Assets	Measures the change in assets held	Net Assets Current Year - Net Assets Prior Year	
	Debt	Useful for non-profits that carry debt	Average Total Debt/ Average Total Unrestricted Net Assets	< 2
Coverage	Debt Servicing	Measure of the cash flow available to pay current debt obligations	[Revenue over (under) Expenses + Amortization + Interest Expense]/ [Current Long - Term Debt + Interest Expense]	> 1

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).

² Some SP's are mainly funded by government sources and therefore have specific requirements in regards to such funding. Therefore, when the majority of a SP's funding comes from government backed sources, less emphasis will be placed on this ratio.

Audited Financial statements from the agencies will be collected with the funding application. In addition and as per the Supported Partner Funding Agreement (Agree2), current UWPH Supported Partners:

- Are normally required to provide UWPH with their most recent Audited financial statements no more than 5 months after their fiscal year end.
- Financial statements must show UWPH grant income separately from other income.

Exceptions to providing Audited Financial Statements:

- A Supported Partner may apply in writing to UWPH to request exemption from the requirement for submission of an audited financial statement if:
 - a) The Supported Partner is requesting under \$10,000 in annual allocations from United Way Perth-Huron or
 - b) If the Supported Partner has an annual operating budget of less than \$100,000.

If the exemption is approved, the Supported Partner shall be allowed to submit unaudited financial statements, including a Balance Sheet (with previous year comparison) and a Statement of Operating Income and Expenditure (with previous year comparison). Such unaudited financial statements must have

been approved by the Board of Directors of the Supported Partner, prior to submission.

- A Supported Partner that is a Registered Municipality is exempt from providing Audited Financial Statements, based on the significant public accountability already required for municipalities. Municipalities that are a Supported Partner must:
 1. Provide confirmation from the Chief Financial Officer (CFO) that:
 - a) UWPH funding was used to provide the service/program as funded by UWPH (per the Supported Partner Funding Agreement);
 - b) The most recent Audited Financial Statement for the municipality had a clean audit report; and,
 - c) UWPH will be informed throughout the year if there are any significant financial issues at the municipality, or with the UWPH funded program, that may put the UWPH funded program at risk.
 2. Provide a profit and loss statement (with previous year comparison when available) for the particular program/service being funded by UWPH.
 - When possible, UWPH will use the program/service budget vs. actuals (for the past two years) submitted by the Supported Partner in the annual progress report. In this circumstance, an additional profit and loss statement would normally not be requested from the Supported Partner.

- For those Supported Partners where annual UWPH funding represents less than 5% of their annual revenues:
 - a) A profit and loss statement (with previous year comparison when available) for the particular program/service being funded by UWPH is to be provided concurrently with the Audited Financial Statements.

When possible, UWPH will use the program/service budget vs. actuals (for the past two years) submitted by the Supported Partner in the annual progress report. In this circumstance, an additional profit and loss statement would normally not be requested from the Supported Partner.

5. Procedure

- 5.1. Financial statements will be collected by UWPH staff.
 - 5.1.1. Supported Partners are required to submit financial statements (or confirmation per the CFO) 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.
 - 5.1.3. Agencies will be required to submit their most recent financial statements with a New Initiative or Impact Funding application.
- 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 financial professionals 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 one 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 SP/Agency falls outside the ideal target range for any of the review tools, CIAC will:

5.6. Determine whether the SP/Agency needs to be contacted.

5.7. Appoint a UWPH staff or CIAC member to make contact with the SP/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 SP/Agency regarding the review.