



Financial Health Indicators Materials

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If you'd like to request permission to use any of the materials in your own organization please contact: **Molly Schultz Hafid**, Assistant Director, molly@veatch.org

If your organization is interested in incorporating the Financial Health Indicators approach into your own grantmaking process, please contact: **Carol Cantwell**, carol@funwithfinancials.net

Materials:

Board of Governors Policy Rationale	page 2
Financial Health Indicators Quick Reference Guide	page 3
Program Officer Discussion Guide	page 6
Grantee Financial Requirements	page 8
Financial Health Indicators Form for Staff	page 10
Sample Financial Analysis Sentences for Staff	page 11
Financial Health Indicators Summary for Board	page 12



UNITARIAN UNIVERSALIST

VEATCH PROGRAM AT *Shelter Rock*

Board of Governors Policy Rationale **Financial Health Indicators** *October 2012*

During Fiscal Year 2013, the Veatch Program Board of Governors approved new financial health indicators developed in partnership with the Veatch Program staff and consultant Carol Cantwell. The assessment tool provides the Board with a standardized form to review the financial well-being of Veatch Program grantees. It is the expectation of the Board that this tool will be assessed regularly and that it is likely to be adapted as the needs of the staff and Board change. The following is an outline of the core assumptions the Board was operating under when the financial health indicators were developed and adopted.

- The Board respects and values the professional staff and developed this tool in partnership with them and not in response to any concerns about the quality of the review being conducted by Veatch Program staff.
- The Board recognizes if it is receiving a précis recommending a grant the staff believes it merits support and recommends it for funding -- regardless of the financial health rating. If the staff has significant concerns, including ones about the financial health of a grantee, a grant will be held over while we investigate it further or not forwarded to the Board with a recommendation for support.
- The goal of the financial health indicators is to provide a consistent metric for measuring the financial health of Veatch Program grantees, provide the staff with a vehicle for ongoing discussions with grantees about the long-term financial management, and identify opportunities for possible capacity-building support.
- Despite the use of numbers and financial statements, the financial health indicators are essentially a qualitative assessment tool. It is only one measure of an organization's health and should never be used as a deciding factor in whether the board approves or rejects a grant.
- We expect that the Veatch Program portfolio will always include a healthy mix of groups across all three rating levels.
- It is expected that an organizations will move up and down on the scale depending on the overall financial climate, how ambitious their programmatic work is within a given fiscal year, changes in their organizational structure or leadership and other factors which will be noted clearly in the comments section of the rating and the text of the précis.
- Some groups will always be at the top of the scale. Some will always be at the bottom. The goal is not for groups to reach the top of the scale.

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**Board of Governors
Financial Health Indicators (FHI)
Quick Reference Guide**

Last Update: May 2013

FHI Vocabulary

- ***Unrestricted Net Assets:*** Funds that are not restricted by time or purpose and are available for the group to use as needed.
- ***Reserves:*** This is technically the amount of Unrestricted Net Assets compared to Total Expenses. Reserves provide stability to absorb the ups and downs of funding without having to cut programs.
- ***Temporarily Restricted Net Assets:*** Funds that are restricted by time or purpose and can only be released for the organization to use at the time the restriction is met. For example: When a group receives a multi-year grant, the first year is available for them to use immediately and the other two years will be placed in the Temporarily Restricted Net Assets. When the time has come for the second year of the grant to begin, they can use that money for the organization's work in the year in which it is intended.
- ***Public Support:*** This is a term directly from the Form 990 and refers to a five-year average of donations above a certain level. The Public Support calculation is included in the FHI as a proxy for measuring the diversity of the organization's sources of support.
- ***Fiscal Sponsor:*** An organization that offers their 501(c)3 tax-exempt status to groups who are not independently registered. A group may not have their own tax-exempt status for many reasons including the cost, time it can take to be approved, and short-term nature of a project of campaign. The fiscal sponsorship arrangement typically involves a fee-based contractual arrangement between a project and an established non-profit.

FHI Ratings

- **Good:** Grantees where there are no financial concerns and the future outlook is positive.
- **Stable:** Grantees where there are no immediate financial concerns but there is room for an improvement in the future outlook.
- **Attention:** Grantees that need more attention to improve their financial performance. They usually have a combination of current financial concerns and a negative future outlook.

The FHI rating is based on a review of the following information from the Form 990:

- Total Revenue
- Total Expense
- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Public Support Percentage

The rating also considers the following trends based on 2-3 years of financial information:

- Trend in Unrestricted Net Assets –decreasing, stable or increasing
- Trend in Temporarily Restricted Net Assets – decreasing, stable or increasing
- The Number of Months of Temporarily Restricted Net Assets

FHI Rating Calculation Guidelines

The chart below is an overview of the categories and rating ranges that help us determine the financial health of an organization. These are a guide and will be reviewed and adjusted every few years to reflect changes in the economy and how it is impacting philanthropic giving.

Analysis	Good	Stable	Attention	What it means:
Number of Months of Reserve	4+	2-4	<2	Reserves provide stability to absorb changes in funding
Change in Unrestricted Net Assets	>(-5%)	(-5%) to (-25%)	<(-25%)	Shows a pattern of surpluses [growth in reserves] or deficits [decreases in reserves]
Number of Months of Temporarily Restricted Net Assets	6+	3-6	<3	Grant funds for the future affects stability of future budgets. Groups with high individual support may be lower here and it's ok.
Change in Temporarily Restricted Net Assets	>(-10%)	(-10%) to (-50%)	<(-50%)	Shows increasing or decreasing foundation funding
Public Support Percentage	70+	45-70	<45	Under 33.3 "tips" them into being considered a private foundation

Fiscally Sponsored Projects

For grantees that are fiscally sponsored, the FHI provides a rating for their fiscal sponsor and for the grantee. The purpose of rating the fiscal sponsor is to insure that financial problems at the sponsor will not negatively impact the grantee's ability to carry out its work. The grantee's sponsor may not separate the fiscally sponsored project's Net Assets into Unrestricted and Temp Restricted Funds. It's quite common for fiscal sponsors to not provide that breakout. The FHI form still allows analysis to be done using the grantee's Total Net Assets. Total Net Assets include the grantee's reserves plus any temp restricted grant funds for the future.

The "Missing Year"

The Form 990 is prepared after an organization has completed their fiscal year. A fiscal year can be any 12 month period and is usually January to December or July to June. There can be a 4-6 month delay from the close of the grantee's fiscal year to the time the Form

990 is submitted. The variation in grantees fiscal years combined with the filing lag time and the different times of year when a group can be reviewed for a Veatch grant often results in a 12-18 month lag time in the financial information available on the Form 990 and the review of the FHI by the Veatch staff and Board. This is what we have been referring to as the “Missing Year.” As the purpose of the FHI is to examine the overall trends in financial health, we agreed this was not a sufficient enough concern to prevent the use of the FHI. We have identified supplemental information (preliminary audits and/or an unaudited Balance Sheet) that will be requested directly from grantees as part of the application process starting in FY 14. This information will not require additional work for the grantee and will help us present a preliminary snap shot of the activity between the end of the last year reported in the 990 and the period under review by the Veatch Program staff.

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Financial Health Indicators Program Officer Discussion Guide

In addition to the information reviewed as part of the FHI form, Program Officers use the following guide to have focused conversations with our grantees about their overall financial health. Please note that not every question will be asked of each grantee. Rather, the questions are selected based on their relevance to that particular grantee's situation. This information is then factored into the overall ranking for the organization and addressed in the narrative portion of the FHI.

1) Based on the trends in the Financial Health Indicators Matrix: I've noticed that...

- a) *Trend (Up or Down) in Unrestricted Net Assets*
 - i) Do you expect that to continue? Why or why not?
- b) *Trend (Up or Down) in Temp Restricted Net Assets*
 - i) Do you expect that to continue? Why or why not?
- c) *Low level of Public Support*
 - i) How will you diversify your funding sources?
- d) *Low level of reserves*
 - i) Do you plan to build reserves? What's the plan?
- e) *Low level of Temp Restricted Funds*
 - i) What are your fundraising prospects? Any new funders in the pipeline?

2) I noticed from your most recent 990 or audit that...

3) Any projected changes in revenue?

- a) New funders
- b) New donor or earned income strategies
- c) Loss of funders

4) Any projected changes in expenses?

- a) New programs
- b) Cutbacks
- c) One-time capacity building or consulting efforts

5) Are you projecting a surplus or deficit for this year? Why?

6) Are there any staffing changes?

- a) New positions
- b) Staff leaving —is their position being filled or restructured?
- c) Cutbacks or hiring freezes

7) Are there any changes on the board?

8) For groups with a c3/c4 structure:

- a) Do you have a cost-sharing agreement in place? Is the c3 or the c4 the “lead” agency?
- b) How often do reimbursements happen? Monthly, quarterly?
- c) Do you track c3 and c4 time on timesheets? Are they up to date?

9) For fiscally sponsored projects:

- a) How often do you get reports from your fiscal sponsor? How timely are the reports?
- b) Do you plan to stay with your current fiscal sponsor?
- c) If looking for a new sponsor, how are you assessing potential sponsors?
- d) Any plans to get your own c3 status?

**UNITARIAN UNIVERSALIST VEATCH PROGRAM AT SHELTER ROCK
RENEWAL APPLICATION**

II. FINANCIAL REQUIREMENTS

All applicants must submit the following information on your financial health and management.

A. FINANCIAL NARRATIVE (1-2 pages)

- 1) Describe the current status of your foundation fundraising efforts. We are interested in learning about any new funders you have secured in the last year, any funders you will have/will be cycling off from, and any other unexpected changes (good or bad) in your overall foundation fundraising.
- 2) Are you diversifying or trying any new approaches to fundraising (e.g., matching grants, grassroots fundraising, events, new appeals, major donor development, or government grants)? If so, what have been the results?
- 3) Based on your most recent fiscal year end AND your projections for your current fiscal year: what do you expect to be changing in your current fiscal year? (For example: major new expenses, major savings, staff expansions or contractions, new programs or campaign expenses, or major capital costs such as moving or expanding your office space, major computer upgrades, new databases, buying a building or building maintenance, etc.)
- 4) Please briefly describe your budget development process. Who is involved? How often is your budget reviewed by the Board? Do the staff have a role in the process? If so, in what way?
- 5) What were your **ACTUAL revenue and ACTUAL expenses** for the most recently completed fiscal year? *typically found on the Profit & Loss Statement (P&L)*

ACTUAL REVENUE: _____ ACTUAL EXPENSE: _____

Please indicate which of the following you are projecting for the current fiscal year (check all that apply):

- | | |
|--|--|
| <input type="checkbox"/> Increased Revenue | <input type="checkbox"/> Increased Expense |
| <input type="checkbox"/> Decreased Revenue | <input type="checkbox"/> Decreased Expense |
| <input type="checkbox"/> Stable Revenue | <input type="checkbox"/> Stable Expense |

- 6) What were your **ACTUAL unrestricted net assets and ACTUAL temporarily restricted net assets** for the most recently completed fiscal year? *typically found on the Balance Sheet (BS)*

ACTUAL unrestricted net assets: _____ ACTUAL temp. restricted net assets: _____

OR if the NET ASSETS cannot be broken out, provide the following for the most recently completed fiscal year and circle your selection: ACTUAL total net assets /fund balance/ equity: _____

Please indicate which of the following you are projecting for the current fiscal year (check all that apply):

- | | |
|--|--|
| <input type="checkbox"/> Increased unrestricted net assets | <input type="checkbox"/> Increased temporarily restricted net assets |
| <input type="checkbox"/> Decreased unrestricted net assets | <input type="checkbox"/> Decreased temporarily restricted net assets |
| <input type="checkbox"/> Stable unrestricted net assets | <input type="checkbox"/> Stable temporarily restricted net assets |

B. CURRENT AND PROSPECTIVE FUNDER LIST (as a separate document)

All applications must include a list of your current and prospective foundation funders. This can be in either Microsoft Excel or Word and must include the name of the foundation, the amount they currently give or are projected to give, and if they are a current or prospective funder.

**UNITARIAN UNIVERSALIST VEATCH PROGRAM AT SHELTER ROCK
RENEWAL APPLICATION**

C. FINANCIAL INFORMATION (Cont'd)

1) For Organizations with their own 501(c)(3): MOST RECENT 990 (as a separate document)

2) FISCALLY SPONSORED PROJECTS (as a separate document)

If you have a fiscal sponsor you are responsible for working with them to prepare ALL OF THE FOLLOWING materials to include with your application:

- i. **FISCAL SPONSOR:** Most recent 990
- ii. **PROJECT** [your organization]: Year-end income and expense report; *typically found on the Balance Sheet (BS)*
- iii. **PROJECT** [your organization]: Year-end unrestricted net assets and temporarily restricted net assets (if figures cannot be broken out, provide total net assets /fund balance /equity); *typically found on the Balance Sheet (BS)*

What this means for a fiscally sponsored project is that we need ALL THREE OF THE ABOVE PIECES OF FINANCIAL INFORMATION (2i, 2ii and 2iii).

If you have questions or are not sure what to submit, please email Denise Centkowski at denise@veatch.org

Sample Financial Health Indicators Form for Veatch Program Staff

All Data Should Be Entered On this Sheet Only. Only Exception is the Financial Analysis Box on the Precis Form.

Grantee:	Grantee
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	Year	Amount
Grant Amount Recommended	2014	\$40,000
Most Recent Grant Awarded	2013	\$45,000

Enter the following figures from either the 990 or the Audit:

	Most Recent Year	Year	Year
	JAN.-DEC. 2012	JAN.-DEC. 2011	JAN.-DEC. 2010
Total Revenue	1,460,013	1,076,472	487,893
Total Expenses	1,166,998	999,830	472,374
Unrestricted Net Assets	67,947	109,182	344,790
Temp Restricted Net Assets	646,500	312,250	329,271
Public Support %*	69	72	56

* Public Support % comes only from 990

NOTES...

NOTE ON 990 WHEN FY ENDS; IE IF IT ENDS 6/30/2011, NOTE AS 2011 FOR MOST RECENT YR.
IF 990 DATA IS DIFFERENT FROM ONE FORM TO NEXT, USE MOST CURRENT- DON'T MIX/MATCH

Enter Fiscal Year ie Jan-Dec 20XX or July 20XX-June 20XX

P.1/LINE 12

P.1/LINE 18

P.11/LINE 27 if nothing listed there check Line 33 leave Temp. Restricted at 0 or try P.4/Line 67

P.11/LINE 28 if nothing listed there check Line 19 Deferred Revenue

P.2SCHED.A (14)/LINE 14/15

Analysis

Initial Rating: # Mths of Reserves	0.7	1.3	8.8
Enter Rating in Words	ATTENTION	ATTENTION	GOOD

Good	Stable	Attention	What it means:
4+	2-4	<2	Reserves provide stability to absorb changes in funding

Mitigating Factors

Change in Unrestricted Trend	-38%	-68%	
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>(-5)	(-5) - (-25)	<(-25)	Shows a pattern of surpluses [growth in reserves] or deficits [decreases in reserves]
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# Mths of Temp Restricted Funds	6.6	3.7	8.4
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6+	3-6	<3	Grant funds for the future affects stability of future budgets. Groups with high individual support may be lower here and it's ok.
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Change in Temp Restricted Trend	107%	-5%	
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>(-10)	(-10) - (-50)	<(-50)	Shows increasing or decreasing foundation funding
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Public Support %	69.2	71.5	55.5
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70+	45-70	<45	Under 33.3 "tips" them into being considered a private foundation
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Sample Financial Analysis Sentences

#Mths of Reserves

GOOD	STABLE	ATTENTION
Grantee has healthy reserves.	Grantee has adequate reserves.	Grantee has low reserves.

Mths of Temp Restricted Funds

GOOD	STABLE	ATTENTION
Grantee has a healthy amount of grant funds for the future.	Grantee has an adequate amount of grant funds for the future.	Grantee has low grant funds for the future.

Change in Unrestricted Trend

GOOD	GOOD	STABLE	ATTENTION
Positive #	Negative #		
Grantee has been able to add to their reserves.	Grantee is maintaining their reserves.	Grantee has used some of their reserves.	Grantee has used a significant portion of their reserves.

Change in Temp Restricted

GOOD	GOOD	STABLE	ATTENTION
Positive #	Negative #		
Grantee has increased the amount of grant funds raised for the future which means they are in a strong position to maintain or grow their current budget.	Grantee is in a good position to maintain their current budget.	The amount of grant funds raised for the future has decreased which means Grantee may experience some budget cuts.	The amount of grant funds raised for the future has decreased significantly which means Grantee is very likely to need budget cuts.

Public Support %

GOOD	STABLE	ATTENTION
Grantee does have diverse sources of support.	Grantee may need to diversify their sources of support	Grantee has highly concentrated sources of support and needs to address this to not be tipped into private foundation status.

Financial Health Indicators Summary for Veatch Program Board

Grantee:	Grantee
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Amount Recommended	2014	2013
	\$40,000	\$45,000

Financial Health Rating	JAN.-DEC. 2012	JAN.-DEC. 2011
	ATTENTION	ATTENTION

Financial Year Analyzed	JAN.-DEC. 2012	JAN.-DEC. 2011
Reserves [in Mths]	0.7	1.3
Temp Restricted Grant Funds for the Future [in Mths]	6.6	3.7
Organizational Revenue	\$1,460,013	\$1,076,472
Organizational Expenses	\$1,166,998	\$999,830

NOTES...
Reserves provide stability to absorb the ups and downs of funding without having to cut programs.
Grant funds for the future affects stability of future budgets. Groups with high individual support may be lower here and it's ok.

Financial Analysis	<p>Grantee has recently used a significant portion of their reserves and has low overall reserves.</p> <p>Grantee has a healthy amount of grants funds for the future and has an upward trend in raising money for future work which means they are in a strong position to maintain or grow thier current budget. The years reviewed are the three during which Grantee was undergoing a merger of two organizations. They used their reserves to cover the added expenses of this endeavor and have come out of the process a stronger and well managed organization.</p>
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