

# Board Fiduciary Responsibilities City of Toronto - OCASI

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*Webinar: 10:00 am to 11:30 am*

# Introduction

- Welcome everyone!
- Brian Traquair (MAS Volunteer Consultant)
  - Retired software business executive
  - 30 years experience as a not-for-profit treasurer & director (church, not-for-profit asset trust, nursery school, foundation, national charity)
  - 3 years with MAS doing consulting with numerous not-for-profits on strategy, finance, facilitation and IT
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# Who is MAS?

- MAS – Management Advisory Services – is a charitable organization, providing free consulting services for not-for-profits for 25 years.
- Our 50 Volunteer Consultants have extensive experience in strategy, finance, IT, group facilitation and governance.
- MAS does about 200 assignments each year for about 150 non-profits in the GTA.
- <https://masadvise.org/>

# Workshop Goals

This webinar is intended for Board members of Not-for-Profit (NFP) organizations who want to:

- improve their understanding of their fiduciary responsibilities as directors, and
- learn about not-for-profit financial management challenges and solutions from a Board perspective.

# Agenda

- Registration and Logistics
- Responsibilities and Stakeholders
- Financial Management
- Canada Revenue Agency Regulation
- Risk Management
- Wrap-up

## Timeline (10:00 am to 11:30 am)

- Introduction and Agenda 5 minutes
- Responsibilities 15 minutes
- Financial Management 35 minutes
- CRA Regulation 15 minutes
- Risk Management 15 minutes
- Wrap-up 5 minutes

# Making the Workshop a Success

- Interaction is welcome! I want to answer as many questions as possible.
- Recognize that we each come with varying experience and from different sizes and types of Not-For-Profit (NFP) organizations.
- Our goal is to cover the range of financial management issues to be considered when you are a NFP Board Director.
- Let's get underway ...

# RESPONSIBILITIES AND STAKEHOLDERS



# Responsibilities of Directors

- Let's look at the financial and fiduciary responsibilities of directors of Not-for-Profit organizations and charities (NFP).
- In this first section, we will give an overview.
- We will then take a closer look at the financial elements over the course of the rest of the workshop.

# Responsibilities

## What is Governance?

- *Governance*, in the non-profit sector, refers to the actions of the volunteer board of directors of an organization with respect *to establishing and monitoring* the long-term direction of that organization.
- This requirement for good governance clearly includes all the financial aspects, which is the focus of our workshop.

# Responsibilities

## Financial Elements of Governance

- Maintaining the mission of the organization, and monitoring and strengthening programs
- *Approving budgets and monitoring results*
- *Ensuring adequate resources and their use*
- *Financial oversight*
- Enhancing the organization's public standing
  
- *Board members must be knowledgeable about the organization and financial affairs of the organization to meet their fiduciary duties.*

# Responsibilities

## The Fiduciary Relationship

- Legal and ethical relationship of trust
- Duties are among the highest standard under law:
  - Honesty
  - Good faith
  - Act in the best interest of the organization
  - Apply skills and exercise judgment
  - Comply with legislation
  - Comply with organization articles and by-laws
  - Show loyalty
  - Keep confidentiality
  - Avoid conflict of interest

# Responsibilities Implications of the Fiduciary Role

- All Board members must be proactive in understanding their fiduciary role.
- Learning and asking questions are critical; this workshop is a good start.
- Board members cannot assume that financial elements of governance are restricted to the Treasurer and/or Chief Financial Officer.
- As we will learn today, there are many dimensions to the financial aspects of a NFP, and Board members need to constantly question and confirm.

# Responsibilities Being Proactive

- Ask for and read the articles and by-laws for your NFP, and check for any financial restrictions or processes specific to your NFP.
- Review the last years of audited/reviewed financial statements and ensure you understand them.
- Watch out for conflicts of interest and declare them.
- Ensure the Directors and Officers Liability Insurance policy is in force and adequate for your NFP.
- Treat Board minutes and communication as confidential and store them appropriately.

# Stakeholders

- Let's consider all the stakeholders for Board members operating a NFP:
  - Funding agencies
  - Donors (individual, corporations, foundations)
  - Regulatory bodies (provincial, federal)
  - Management, employees and volunteers
  - Clients and users of your services
  - The general public

# Stakeholders

## Agencies/Donors

- Funding agencies and donors
- Responsibility for the stewardship of agency funds and donations from all sources in line with the expectations established and agreed when the grant or donation was made
- Segregating restricted funds
- Providing reporting for agencies in accordance with their needs and/or legislation
- Site visits and potential audits as needed



# Stakeholders

## Regulatory Bodies

- For charities, the most important regulatory agency is the Charities Directorate of the Canada Revenue Agency.
- Other regulations in Ontario include the Ministry of Community and Social Services Act, and the Trustees Act.
- For NFPs that are not charities, the Corporations Act and the Ontario Not-for-Profit Corporations Act (likely 2020) are important.

# Stakeholders

## Employees and Volunteers

- All those working on behalf of your NFP, paid and unpaid, are stakeholders.
- Ensuring that employees are paid on time and with appropriate deductions is important.
- Make sure that human resource policies, notice periods, expense reimbursements and other financial policies are documented.
- Employees are vital, but can also be a financial exposure when things go badly.

# Stakeholders Clients

- The people that benefit from your services are stakeholders. These can be clients, users, members, partners and so on.
- The financial element of these relationships will vary widely, from nothing to user fees and co-investment.
- From a financial perspective, the key elements are fairness, sustainability (being here tomorrow!) and delivery of your programmes.

# Stakeholders

## The General Public

- While not direct stakeholders in any NFP, the general public remain an audience that a Board must keep in mind.
- Particularly for organizations that rely upon donations, your public persona and how you are perceived is important to fund raising.
- The Board needs to consider how its financial practices may have a bearing on its financial stability and sustainability.

# FINANCIAL MANAGEMENT

# Understanding Financials

- In this part of the workshop, we will review the basics of financial statements for a fictional NFP. Your NFP financial statements will be more complicated, but the principles are the same.
- For people who do not have a financial background, the financial statements for a charity or NFP can be difficult to understand.
- Part of every director's fiduciary responsibility is to understand the financials of their organization.

# Understanding Financials

## Income Stmt vs. Balance Sheet

- **Income Statement (I/S) [Revenue & Expense]**
  - Organization performance over a period of time.
  - The impact of revenues and expenses feeds into the balance sheet.
- **Balance Sheet (B/S) [Financial Position]**
  - Organization financial health at a single point in time.
  - It shows assets (owned) and liabilities (owed).
  - There are also elements that account for aligning revenue and expense to specific time periods.

# Understanding Financials

## Analogy to Personal Financials

- Income Statement = What you earn & spend
  - **Income:** salary, bank interest, dividends
  - **Expense:** income tax, mortgage, car lease, food
  - **Net:** money left over or overspend
- Balance Sheet = What you own and owe
  - **Assets:** house, car, chequing, saving, investments
  - **Liabilities:** mortgage, car loan, line of credit
  - **Equity:** money you have if you sell everything and pay off all loans and debts



# Understanding Financials

## Cash vs. Accrual Accounting

- Individuals and families tend to use a “cash” approach; businesses and charities normally use an “accrual” approach.
- In accrual accounting, we pay strict attention to when things are earned or due.
- This means using the balance sheet as a place where we record adjustments to give a more perfect picture of where we stand on that day.

# Understanding Financials

## Cash vs. Accrual Accounting ...

- If families used accrual accounting ...
- At year-end, if you knew you were owed interest income that had not been paid, you would add it to your balance sheet as accrued income (and remove it when received).
- At year-end, you would reduce the mortgage owed on your balance sheet to adjust the (say) Sept statement by the Oct, Nov and Dec principal payments.

# Understanding Financials

## Sample NFP Balance Sheet

<b>Assets</b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>
Bank account	25,000	20,000
Investment account	120,000	105,000
HST Recoverable	7,500	9,500
Leasehold Improvements (net)	40,000	37,500
Prepaid expenses	5,000	7,500
<b>Total Assets</b>	<b>197,500</b>	<b>179,500</b>
<b>Liabilities</b>		
Accrued liabilities / payables	20,000	25,000
Deferred grants/contributions	75,000	90,000
<b>Total Liabilities</b>	<b>95,000</b>	<b>115,000</b>
<b>Surplus (Deficit)</b>		
Surplus (Deficit) in Year	7,500	-10,000
Retained Surplus (Deficit)	40,000	47,500
<b>Total Surplus (Deficit)</b>	<b>47,500</b>	<b>37,500</b>
<b>Net Assets</b>		
<b>Unrestricted Net Assets</b>	<b>150,000</b>	<b>102,000</b>

# Understanding Financials

## Balance Sheet – Assets

- **Bank accounts** – value of all bank accounts that day (chequing, saving, etc.)
- **Investment accounts** – value of investments that day, as reported
- **HST Recoverable** – charities earn a government tax credit on a percentage of HST taxes paid on purchases; the B/S holds an estimate of what the government owes; refunds issued once/twice a year

# Understanding Financials

## Balance Sheet – Assets ...

- **Leasehold Improvements** – when you spend money to improve your office, the value persists for number of years.
- **Prepaid expenses**– when you pay a vendor invoice in advance of receiving the goods or services, at the date of the B/S, you have paid for something you will receive in the future.
- **Total Assets** – the sum of all the assets listed above in the B/S

# Understanding Financials

## Balance Sheet - Liabilities

- **Accrued Liability** – funds owed to other parties on the day noted; can be loans, unpaid invoices or other obligations
- **Deferred Grants/Contributions** - some donations cannot be recognized until the corresponding expenditures take place; this records the obligation for the expense

# Understanding Financials

## Balance Sheet – Surplus (Deficit)

- **Surplus (Deficit)** – this is the surplus or deficit in the current period
- **Retained Surplus (Deficit)** – this is the addition of all prior years of surplus or deficit, to the date of the last balance sheet
- **Unrestricted Net Assets** – the net of all assets less liabilities plus surplus (deficits); funds held without obligation to any projects or expenditures; similar to equity

# Understanding Financials

## Sample NFP Income Statement

<b>Revenue</b>	<b>2017</b>	<b>2018</b>
Province of Ontario Grants	175,000	160,000
City of Toronto Grants	120,000	130,000
United Way	150,000	135,000
Foundations/Corporations	40,000	20,000
Individual Gifts	25,000	30,000
Program Receipts	25,000	20,000
<b>Total Revenues</b>	<b>535,000</b>	<b>495,000</b>
<b>Expenses</b>		
General staff costs	125,000	115,000
Program staff costs	215,000	205,000
Fundraising staff costs	75,000	75,000
Rent	45,000	45,000
Utilities and telecom	20,000	22,500
Office and supplies	20,000	17,500
Travel and meals	10,000	7,500
Insurance and professional fees	7,500	7,500
Amortization and depreciation	10,000	10,000
<b>Total Expenses</b>	<b>527,500</b>	<b>505,000</b>
<b>Surplus (Deficit)</b>		
<b>Total Surplus (Deficit)</b>	<b>7,500</b>	<b>-10,000</b>



# Understanding Financials

## Income Statement – Revenues

- The income statement revenue section shows revenues by type and by source
- The number of lines and detail can vary
- Government funding and agencies
  - Examples here are Province of Ontario, the City of Toronto and the United Way
  - Need to be separated out for reporting and accountability
  - These are often a major percentage of revenue

# Understanding Financials

## Income Statement – Revenues ...

- Corporate and individual gifts
  - Normally you break out total foundations and corporations from individual gifts as seen in Sample
  - If you have one or two major ongoing donors, it can make sense to have a separate line for each
- Program receipts
  - If your not-for-profit charges fees for services or activities, then note that revenue separately
  - If fees are a big percentage of revenue, break it into key programs

# Understanding Financials

## Income Statement – Expenses

- The expense section shows expenses by type, at a level of detail appropriate to each NFP
- Staff costs
  - Staff are almost always a major expense
  - Financials should provide some breakdown by purpose that is informative for the organization
  - In Sample NFP, there are three lines – General staff, Program staff and Fundraising staff costs
  - In our example, benefits are included in each area

# Understanding Financials

## Income Statement – Expenses ...

- The next section is typically various expense categories for the organization
  - Examples include rent, utilities, office, travel and professional fees
- The final section is normally accounting adjustments to deal with accrual accounting
  - Examples include depreciation of fixed assets and amortization of intangible assets

# Understanding Financials

## Restricted vs. Non-Restricted

<b>Sample NFP Income Statement</b>				
	<b>Unrestricted</b>	<b>Restricted</b>	<b>2018</b>	
Province of Ontario Grants	80,000	80,000	160,000	
City of Toronto Grants	0	130,000	130,000	
United Way	35,000	100,000	135,000	
Foundations/Corporations	20,000	0	20,000	
Individual Gifts	30,000	0	30,000	
Program Receipts	20,000	0	20,000	
<b>Total Revenues</b>	<b>185,000</b>	<b>310,000</b>	<b>495,000</b>	
<b>Expenses</b>				
General staff costs	42,980	72,020	115,000	
Program staff costs	25,000	180,000	205,000	
Fundraising staff costs	75,000	0	75,000	
Rent	16,818	28,182	45,000	
Utilities and telecom	8,409	14,091	22,500	
Office and supplies	6,540	10,960	17,500	
Travel and meals	2,803	4,697	7,500	
Insurance and professional fees	2,803	4,697	7,500	
Amortization and depreciation	3,737	6,263	10,000	
<b>Total Expenses</b>	<b>184,091</b>	<b>320,909</b>	<b>505,000</b>	
<b>Surplus (Deficit)</b>				
<b>Total Surplus (Deficit)</b>	<b>909</b>	<b>-10,909</b>	<b>-10,000</b>	

# Understanding Financials

## Restricted vs. Non-Restricted

- Financial reporting needs to segregate restricted vs. non-restricted funds and expenses.
- Direct expenses need to be charged to the restricted area, either in one group or in separate funds (fund accounting).
- General expenses need to be allocated based on an agreed and consistent measure, or put all against unrestricted and funded.

# Understanding Financials

## Fund Accounting

- If your NFP has chosen to use Fund Accounting, then each fund established by legal, contractual or voluntary actions of an organization will be accounted for separately.
- Each fund will be a column in your reports.
- Each fund will have a description, including types of revenue and expenses within it.
- Fund accounting entails an accounting segregation, not a physical segregation.

# Understanding Financials

- We are now done our review of financial statements in the NFP sector.
- Review the financial statements for your own NFP and ensure you understand them.
- The balance sheet is always more difficult, so spend more time on it.
- Ask your Treasurer or CFO to explain what you do not understand; chances are you are not the only one with questions.



# Board Structures for Finance

- There are different types of Boards, in how they approach their responsibilities.
- These approaches can have an impact on how the financial aspects of the NFP are managed and controlled by the Board.
- There are different options for board financial roles and structure, which we will now review.

# Board Structures for Finance

## Styles of Boards

- Governing Boards – govern strictly through creation and administration of policies, operate at arm’s length and function as a unit
- Management Boards – make day-to-day decisions and are actively involved in organizing NFP operations.
- Working Boards – more common in smaller NFPs, is often composed of volunteers and staff, and owns functions and does projects.

# Board Structures for Finance Finance Functions

- Most NFP and charities have an Audit and Finance Committee of the Board charged with leading oversight on financial matters.
- NFPs often have a Board Treasurer, who will be on the Audit Committee, and who takes responsibility for leading Board financial reviews.
- The Chief Financial Officer of the NFP will usually attend Board meetings to explain the financials. The title can vary for this role.

# Board Structures for Finance Audit and Finance Committee Role

- Reports to the Board as a whole for approval.
- Oversees the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Facilitates the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- Reviews the financial statements before the NFP publicly discloses this information.

# Board Structures for Finance Management Role in Finance

- Maintain adequate accounting records and maintain internal controls for the NFP
- Select and consistently apply appropriate accounting policies.
- Safeguard the NFP assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- Provide information to the Board and Audit so they can complete their mandate.

# Reporting Expectations

- As a Board, you set expectations on financial reporting.
- These expectation build upon the requirements set under GAAP, legislation and the CRA.
- The Board however must be clear on frequency of reports and levels of detail, as well as making time for review and discussion.
- The other critical element is budgets and variance reporting.

# Reporting Expectations Audited Financial Statements

- Annual, per the Accounting Standards for Not-for-profit Organizations (ASNPO)
- Statements:
  - Statement of Financial Position
  - Statement of Changes in Net Assets
  - Statement of Revenue and Expenses
  - Statement of Cash Flows
- Auditor's report
- Notes to financial statements

# Reporting Expectations Statements

- As a Board, you should expect to see financial statements each quarter.
- These should include both a Statement of Revenue and Expense, and a Statement of Financial Position.
- Monthly, you should see revenue and expense information, with notes on any material events.



# Reporting Expectations Audit Report

- This is where the auditor provides its audit opinion on the financial statements
- ‘Clean’ / Unqualified vs Qualified opinion
- There can be a qualification for charitable organizations on completeness of revenue.
- The Board or the Audit Committee needs to meet with the auditors to ensure a full understanding of the statements and any notes.

# Reporting Expectations Review Engagement

- For some NFPs that meet the appropriate criteria (see later in this workshop), you may not have an audit but a review engagement.
- An audit gives assurance that the financial statements are free of material misstatements; a review engagement ascertains whether or not the financial statements are believable.
- In a review, there is a need for the Treasurer to provide notes and answer questions.

# Budgets

- Budgets are a critical part of financial responsibility for a Board.
- The budget is one of the main ways in which a Board sets priorities.
- Reporting against the budget is vital for risk management, performance analysis, forecasting and planning.

# Budgets

## Role of the Budget

- Translate an operational plan into financial outcomes per month, quarter and year, and then manage to that budget plan
- Provide a clear plan on income and expenses, and on staffing and capital spending as needed
- Allocate people and financial resources in the optimal way to accomplish the NFP mission
- Enable prediction of likely future needs
- Help achieve a sustainable financial future

# Budgets Priorities

- Many organizations don't allocate their resources (money and people) in proportion to the importance and complexity of clear mission priorities.
- As a result, they are less effective at achieving their mission.
- A budget enables the Board to ensure that spending is aligned to the agreed goals.

# Budgets Making Choices

- Decision making only occurs when we make choices between alternatives.
- Budgets help organizations identify where decisions are required, or are desirable.
- The Board has the responsibility to ensure that the organization makes the difficult decisions, rather than just floating along.
- Hope is not a plan!

# Budgets Variance Reporting

- The budget provides the basis of the financial plan for your NFP.
- You need to see reports that show variances between your actual results and your budget.
- Focus on the most material changes.
- Ensure you have a forecast for the full year.
- Understand why things are off budget and then take corrective action as needed.

# Budgets Forecast and Adjust

- Each quarter, review a variance to budget analysis and report for the period, and year-to-date.
- Then given both of these inputs and any other information, ensure that management is providing a forecast where you will land for the full year, by major item.
- Doing this every quarter enables you to see where the team got it wrong, and learn from it.



# Budgets

## Long Term Financial Plan

- Budgets enable organizations to better understand their financial drivers.
- A long term financial plan, which builds on budgets, is critical to strategic planning.
- An organization that has a good budget review process is better positioned to create a solid long term financial plan.
- Experience will inform readers on what can be controlled and what demands adaptability.

# Budgets Resources

- The demands on NFP organizations is inherently infinite, as the needs virtually always outstrip capacity.
- A fundamental budget conversation is always about scarce resource allocation.
- Budgets help the Board identify where you have the tightest constraints, which can both guide attention and also highlight fund raising narratives to address the shortage.

# Technology and Tools

- Technology plays a big part in all our lives, and in the daily operation of our organizations.
- NFP organizations need to leverage technology in finance, as well as other functions, in order to be effective.
- The Board has a responsibility to encourage management to identify and put in place appropriate systems, tools and technology to support finance.

# Technology and Tools Review

- There are a variety of affordable and proven accounting and fund raising systems available for NFP organizations.
- You should ensure that your NFP does a regular review of solutions and invests appropriately.
- In-house systems and Excel are no longer best practice!

# Technology and Tools Projects

- Every system change is a project.
- Changing financial systems has an inherent risk, but this can be worth the end benefit.
- As a Board, you need to review the cost benefit, and request a project plan.
- The project plan must show a thoughtful analysis of the conversion, any risks and back-off plans if the conversion fails.
- The plan needs to have contingency in it.

# CANADA REVENUE AGENCY REGULATION

# Charities versus Not-For-Profits

- Not-For-Profits is the broad description.
- Registered Charities are a subset of the overall Not-For-Profit sector.
- In this section, we will look at the differences between Registered Charities and all other Not-For-Profit organizations.
- Many of these distinctions relate to CRA definitions and financial requirements.

# Charity versus Not-For-Profit Summary

## Registered Charity

- Exclusively for charitable purposes
- Must register with CRA
- Can issue tax receipts
- Annual minimum spend on programs or gifts made
- Must file a T3010 return
- Cannot use its income to benefit its members
- Exempt from income tax

## Not-For-Profit Org

- Any purpose except profit, and not just charity
- No registration
- Cannot issue tax receipts
- No spending requirement
- Must file a T2 return
- Cannot use its income to benefit its members
- Exempt from income tax



# Charity versus Not-For-Profit Soliciting Corporation (SC)

- Receives income in a given fiscal year of \$10,000 or more in the form of:
  - Donations from other than a member, director, employee of the organization, or one of their family members (including siblings and children)
  - Grants from any level of government
  - A gift from a soliciting corporation
- This is what is known as “public funding”

# Charity versus Not-For-Profit Designated Corporation (DC)

- Annual revenues of less than \$50,000 for a Soliciting Corporation, or
- Annual revenues of less than \$1,000,000 for a Non-Soliciting Corporation

# Charity versus Not-For-Profit

## Why do these definitions matter?

- Soliciting Corporations (SC), because they draw on “public funds”, are held to a higher governance and reporting standard.
- Designated Corporations (DC) (whether SC or non SC) are given waivers on some requirements

# Charity versus Not-For-Profit Revenue Limits on Classifications

- Gross annual revenues from last fiscal year determines at different levels a Designated from a Non-Designated

Definition	Designated	Non Designated
Soliciting	\$50,000 or less	More than \$50,000
Non-Soliciting	\$1,000,000 or less	More than \$1,000,000

# Charity versus Not-For-Profit Public Accountant Requirement

- Public accountant required, to be appointed by members resolution at annual general meeting?

Public Accountant	Designated	Non Designated
Soliciting	Not Required (requires unanimous resolution)	Required
Non-Soliciting	Not Required (requires unanimous resolution)	Required

# Charity versus Not-For-Profit GAAP Financial Statements

- Prepare and submit to Industry Canada financial statements in accordance with GAAP?

Submit GAAP Fin Statements	Designated	Non Designated
Soliciting	Required	Required
Non-Soliciting	Only on Request	Not Required

# Charity versus Not-For-Profit Level of Financial Review

- The level of financial review required depends on the classification of the NFP.

Submit GAAP Fin Statements	Designated	Non Designated
Soliciting	No Review unless public accountant appointed	If <\$250K and resolution, Review
Non-Soliciting	No Review unless public accountant appointed	Full Audit


## The T3010

- The T3010 Annual Information Return (including disbursement quota) is the annual information return for charities.
- It is the equivalent of a tax return, but of course NFP organizations typically do not pay taxes.
- Filed annually, the information is reviewed by the CRA and they can respond with questions.
- The return is published on the CRA Charities web-site for anyone to review; it is public.



# The T3010

## 10 Pages in Total

 Canada Revenue Agency / Agence du revenu du Canada

Place bar code label here

### Registered Charity Information Return

Protected **B** when completed

#### Section A: Identification

- To help you fill out this form, refer to Guide T4033, Completing the Registered Charity Information Return. It can be found at [canada.ca/cra-forms](http://canada.ca/cra-forms).

**Note:** Even if a charity is inactive, an information return must be filed to maintain its registered status.

**Complete the following:**

1. Charity name:

2. Return for fiscal period ending:

Year	Month	Day

3. BN/registration number:

R R
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4. Web address (if applicable):

**A1** Was the charity in a subordinate position to a head body? ..... **1510**  Yes  No  
If **yes**, give the name and BN/registration number of the organization.

Name:	BN (if applicable)
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## The T3010

# The T2 Corporate Return vs. the T3010

- Charities must be registered with the CRA and they must file an annual T3010 form each year.
- Non-profits have no organization registration process with the CRA.
- Non-profits that are not Registered Charities may have to file a T2 corporate return (if they are incorporated, about 8 pages) and/or an information form T1044 (if they are not, about 2 pages).

# T3010 Requirements

- The return must be filed each year, within 6 months of the NFP fiscal year-end.
- If financial statements are not included, the charity or NFP registration may be revoked.
- Charities must also supply a list of directors and a list of donations to qualified donees as part of the return.

# The T3010 Disbursement Quota

- The disbursement quota is the minimum calculated amount that a Registered Charity is required to spend each year on its own charitable programs or on gifts to qualified donees, such as other registered charities.
- This figure needs to be calculated and included in the T3010 return each year.

# The T3010 Disbursement Quota Calculation

- The calculation is based on the average value of a registered charity's property not used directly in charitable activities or administration.
- This typically includes cash, bank balances, investments and land. The value is based on the 24 month average.
- The annual disbursement quota is 3.5% of the average value of such property.

# The T3010

## Disbursement Quota Excess/Shortfall

- Disbursement excesses can be carried forward for five years or carried back one year.
- A registered charity can draw on disbursement excesses from the five previous fiscal periods to help it meet a shortfall or the charity can spend enough the following year to create an excess that it can carryback to cover the shortfall.
- Continuous shortfalls may lead to revocation of a charity's registration.

# RISK MANAGEMENT

# Risk Management

- The Board is responsible for the long term sustainability of the NFP.
- In particular, beyond making sure that the NFP mission and services are relevant, this means financial sustainability.
- You need to be able to assess whether your NFP is financially okay, or not.



# Risk Management

## Types of Assets

- Be sure in your reporting that you are able to differentiate between types of assets:
  - Unrestricted (very important!)
  - Internally restricted
  - Externally restricted
  - Endowments
- Only unrestricted assets can be used for unexpected expenses or crises.

# Risk Management

## Systematic Risk Management

- Discuss and agree at the Board level your accountability for risk management, including a risk management statement.
- Include scenario planning and contingency.
- Discuss financial stability targets - the range in which to operate to be sustainable?
- Consider board composition and qualifications to bolster expertise.

# Risk Management

## Attributes of NFP Failure: Avoid!

- Fragile financials; years of deficits for example
- Inadequate chief financial officer
- Crisis precipitated by an event
- Failure to do explicit scenario planning
- Board not aware of important financial trends
- Board did not get timely and actionable data
- Board took too long to realize there was a problem and then delayed taking action

# Risk Management Use a Scorecard

- Use a scorecard on key financial and risk attributes to ensure measurement, classification and understanding.

Area	Target	Celebrate	Monitor	Act Now
Financial results	Breakeven	Surplus	\$25K deficit	\$50K deficit
Grant renewals	80%	90%	70%	50%
Days cash	60	90	50	30
Months reserve	4	4+	3	2

# Risk Management Questions – Financial Results

- Are YTD actual revenues in line with YTD budgeted revenues?
  - If lower, are we at risk of not meeting our planned work and are programs at risk?
- Are YTD actual expenses in line with YTD budgeted expenses?
  - If lower, are we at risk of having to return funding?
  - If higher, do we have sufficient revenues to cover these expenses?

# Risk Management Questions – Funding Agreements

- What is the timeline for current funding agreements?
- For agreements with close end dates
  - Are they being renewed?
  - Are there new agreements replacing them?

# Risk Management Questions – Risk and Fraud

- Are there new risks associated with the programs that the Board should be aware of?
- Is management aware of actual fraud or new fraud risk factors within the organization?
- Is there any litigation against the organization?

# Risk Management Questions – Statutory Deductions

- Is the organization up to date with its statutory remittances?
- Are you checking each quarter?
- This could be in the form of a signed management confirmation to the Board that all source deductions and other remittances are up to date and that the organization has complied with the relevant regulations.



# Risk Management Reserves

- A top priority for NFP Boards is to maintain an adequate operating reserve.
- An operating reserve is money set aside for unforeseen financial emergencies, such as lower grants or donations, higher operating expenses or a sudden major expenditure.
- Many NFP have no reserves, or even negative reserves (where cash in the bank is restricted and not available as a reserve).

# Risk Management Reserves – From where?

- Operating reserves are a portion of “unrestricted net assets” set aside for emergencies.
- Unrestricted net assets is a specific line in the balance sheet required by regulatory reporting.
- Unrestricted funds that are tied up in fixed assets are not available for an operating reserve, but could form part of a longer-term strategic reserve if they can be made liquid.

# Risk Management Reserves – How much?

- Operating reserves are usually measured in terms of months of expenditures.
- A common goal is to set aside the equivalent of three months of operating expenditures as an operating reserve.
- These funds should be invested in short-term liquid securities.
- Set a policy on how the fund will be replenished if it is drawn upon.

# Supervision and Audit

- The Board is responsible for setting up the processes for supervision and audit of the financial affairs of the NFP.
- This includes appointing officers, appointing an audit committee, appointing an auditor and ensuring there is a sound process for evaluation and supervision of NFP finances.

# Supervision and Audit

## Effective Audit Committees will ...

- Create the Right Tone at the Top
- Be Independent
- Reflect a Balance of Skills
- Make a Time Commitment
- Develop a Clear Charter
- Develop Specific Committee Duties
- Plan the Year's Agenda
- Document the Committee's Work

# Supervision and Audit Robust Financial Reporting

- Tracking of revenues and expenses compared with prior year.
- Tracking of revenues and expenses compared with budget.
- Consistent framework for budget and actual.
- Ensuring cut-off done on internal statements (eliminates significant variances at year-end).
- Ensuring that same accounting standards followed throughout the year, and over time.

# Supervision and Audit Internal Controls – Board/Audit

- Understand what internal controls are present in the organization.
- Review internal policies and procedures upon becoming a member.
- Management can update on specific areas on a rotational basis.
- Ensure management is accountable.
- Follow up on recommendations (if any) from external auditors.

# CONCLUSION



# Summary – What did we Cover?

- Responsibilities and Stakeholders
- Financial Management
- CRA Regulation
- Risk Management
  
- Thank you for attending.

**QUESTION AND ANSWER**

**THANK YOU!**