







Not For Profit Finance

Navigating Financial Statements



Ted de Kleine, CPA, CA June 4, 2019



INTRODUCTIONS

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INTRODUCTIONS

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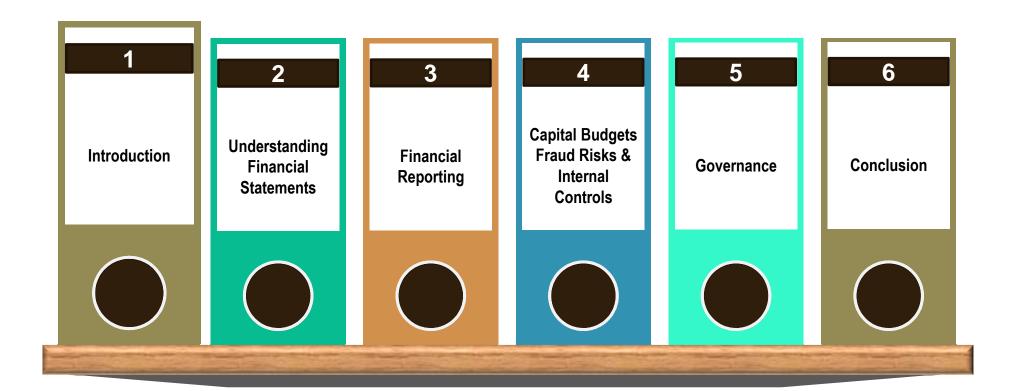


About Us

- A leading national accounting, tax and business consulting firm in Canada, with locations throughout Alberta
- Proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors
- Provide a collaborative, cost-effective approach to doing business
- Provide personalized strategies to help organizations succeed across the country and around the world

AGENDA



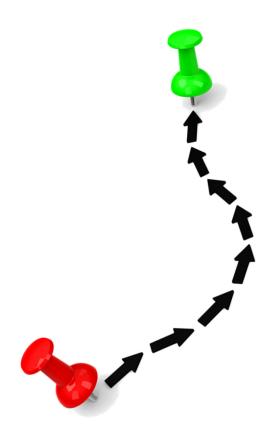


INTRODUCTION



Today's Schedule

Topic	Time	
Introduction	10:00 am – 10:10 am	
Understanding	10:10 11:00	
Financial Statements	10:10 am – 11:00 am	
Break	11:00 am – 11:05 am	
Financial Reporting	11:00 am – 11:15 am	
Capital Budgeting &	44:45 44:20	
Fraud Risks/Controls	11:15 am – 11:30 am	
Governance	11:30 am – 11:45 am	
Conclusion &	44.45 40.00	
Questions	11:45 am – 12:00 pm	



INTRODUCTION



Today's Objectives

- Upon completion of this session, you will be able to:
- Gain a better understanding of what the financial statements are and what financial reporting is
- Use capital budgets for long term planning
- Understand fraud risks and what internal controls can be put in place to mitigate against them
- Advise your Board of Directors of governance issues that impact their positions







AGENDA





Types of Financial Statements

Prepared Internally by Organization

- Budgets
- "Internal Reports"
 - Typically revenue and expense actuals vs budget
 - Balance sheet less frequently

Reports Prepared Externally by CPA firms

- Compilation
- Review Engagement
- Audit



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Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
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Terminology

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows

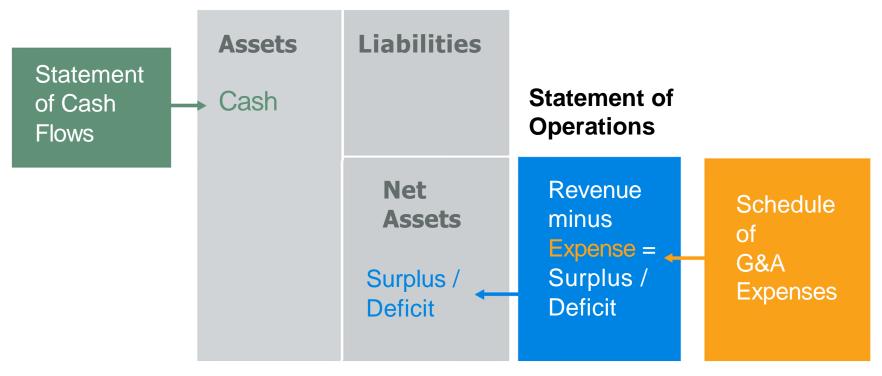


Understanding Financial Statements



The Connection

Statement of Financial Position





The Two Bottom Lines

Statement of Operations: Annual Surplus/Deficit

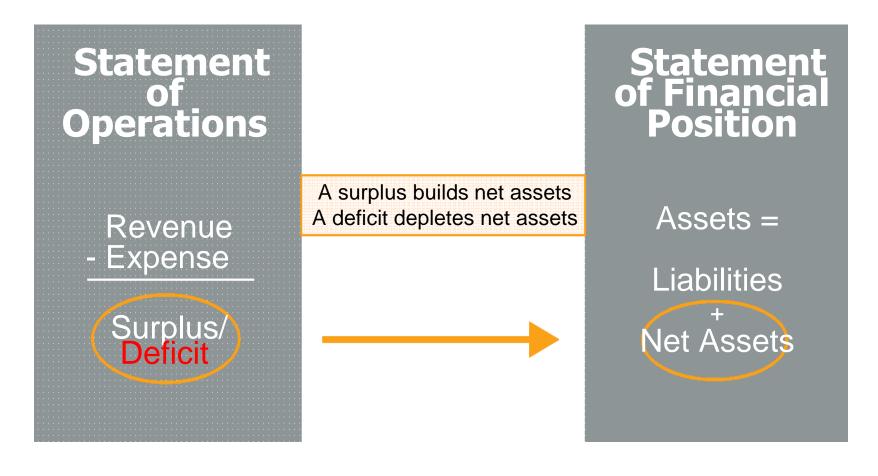
reflects the annual results of the Organization's operations

Statement of Financial Position: Net Assets

provides a picture of overall financial health



The Bottom Lines





Statement of Financial Position

- Assets
 - Current assets restricted cash
 - Capital assets
- Liabilities
 - Current liabilities
 - Long term debt
 - Deferred contributions
- Net assets
 - Unrestricted net assets
 - Invested in capital assets
 - Reserves (or internally restricted net assets)



Statement of Financial Position

- Do we have the ability to pay our bills?
- Need to look at the SFP
 - Compare current assets (CA) to current liabilities (CL)
 - Current financial assets what you own
 - Current liabilities what you owe
- Current Assets > Current Liabilities
 - Likely able to pay bills
- Current Liabilities > Current Assets
 - Will be problems paying bills



Non Profit Society
Non Profit Society
Statement of Financial Position

As at March 31, 2019

	2019	2018
Assets		
Current		
Cash	48,590	42,648
Restricted cash	160,000	150,000
Accounts receivable	10,480	44,866
Prepaid expenses and deposits	1.859	1.831
	220,929	239,345
Capital assets (Note 3)	453,625	469,000
	674,554	708,345
Liabilities		
Current		
Accounts payable and accruals	15,234	20,109
Current portion of long-term debt	10.707	10,298
	25,941	30,407
Long-term debt	83,293	93,702
Deferred contributions	49,000	39,000
	158,234	163,109



What can the Statement of Financial Position Tell us?

- What you 'own' vs. what you 'owe' and the net result
- It reflects everything that has happened to your Organization up until that point
- The cumulative impact of the circumstances that surround you and the decisions that you made
- It indicates your ability to manage risk or pursue new opportunities

Understanding Financial Statements



Statement of Operations

- Revenues
- Expenses
- Net surplus (deficit)
- Budget



What can the Statement of Operations tell us?

- Revenue Questions
- Where does the Organization's money come from?
- Is it reasonably diversified or at risk?
- Do revenue streams appear reliable / consistent?
- Expense Questions
- What does the Organization spend on operating activities?

Understanding Financial Statements



Are expenses in line with revenue changes?

 Note: Statement of Operations will not present expenditures on capital items or debt principal repayments

Profitability and Savings

- Did the Organization cover its costs?
- Are surpluses sufficient to meet balance sheet obligations?
- Is the Organization saving? If so, is it enough?

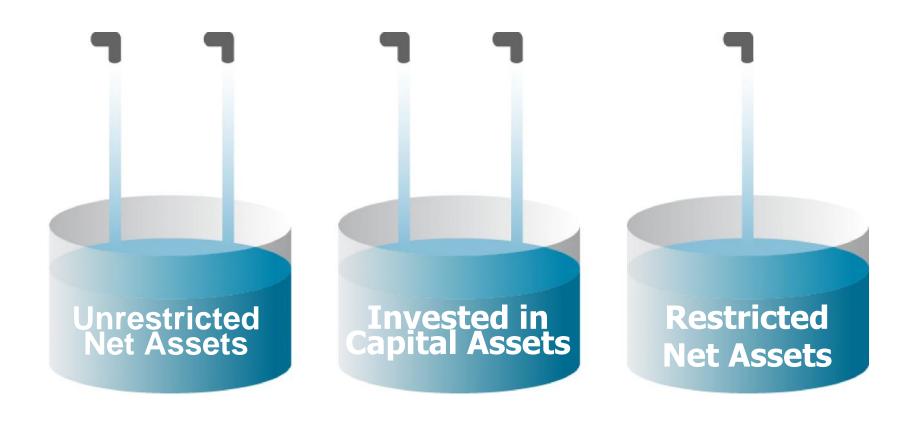


Non Profit Society Non Profit Society Statement of Operations For the year ended March 31, 2019

	For the year ended March 31,		
	2019 Budget	2019	2018
Revenue			
Grant revenue	160,000	160,000	150,000
Fundraising	-	-	32,000
Investments	1,000	894	918
Project revenues	60,000	64,592	58,718
Total revenue	221,000	225,486	241,636
Expenses			
Advertising	1,500	1,819	1,695
Amortization	15,375	15,375	15,375
Automotive	2,500	3,215	2,014
Equipment rental	1,000	529	987
Fundraising expenses	-	-	8,459
Insurance	7,500	7,654	7,439
Interest and bank charges	700	631	715
Interest on long-term debt	4,500	4,606	4,895
Office	3,000	6,502	3,000
Professional fees	12,500	12,594	12,105
Project expenses	59,000	59,254	58,000
Rent	25,200	25,200	25,200
Repairs and maintenance	1,500	6,798	744
Salaries and benefits	95,000	97,549	60,122
Supplies	1,000	744	869
Telephone	3,000	2,618	2,785
Travel	1,000	899	1,024
Utilities	8,200	8,415	8,167
Total expenses	242,475	254,402	213,595
(Deficiency) excess of revenues over expenses	(21,475)	(28,916)	28,041



Net Assets Goes into Three "Buckets"



Understanding Financial Statements



Statement of Changes in Net Assets

- Reports the Organization's Surpluses by type:
 - Unrestricted net assets
 - Reports all general operations
 - Invested in capital assets
 - Reports all activity relating to capital assets acquisitions, dispositions and related financing
 - Restricted net assets
 - Reports all restricted funds to be used for specified future purposes



Non Profit Society Non Profit Society Statement of Changes in Net Assets

For the year ended March 31, 2019

	Unrestricted net assets	Invested in capital assets	Reserves	2019	2018
Net assets beginning of year	30,236	365,000	150,000	545,236	517,195
(Deficiency) excess of revenues over expenses	(28,916)	-	-	(28,916)	28,041
Amortization of capital assets	15,375	(15,375)	-		-
Repayment of long term debt	(10,000)	10,000	-	-	
Transfer to reserves	(10,000)	-	10,000	-	-
Net assets, end of year	(3,305)	359,625	160,000	516,320	545,236

Understanding Financial Statements



Statement of Cash Flows

- Summarized cash inflows and outflows by:
 - Operating activities
 - Financing activities
 - Investing activities



Non Profit Society Non Profit Society Statement of Cash Flows

For the year ended March 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Grant and project revenue	268,978	202,852
Investments	894	918
Program service expenses paid	(146,381)	(119,820)
Cash paid for salaries and benefits	(97,549)	(60,122)
	25,942	23,828
Financing activities		
Repayment of current portion of long-term debt	(10,000)	(10,000)
Increase (decrease) in cash resources	15,942	13,828
Cash resources, beginning of year	192,648	178,820
Cash resources, end of year	208,590	192,648
Cash resources are composed of:		
Cash	48,590	42,648
Restricted cash	160,000	150,000
	208,590	192,648



Notes to the Financial Statements

- How can I get more detail?
 - Notes and schedules provide a great deal of additional information.
 - Provides significantly more detail on items found on other statements.
 - Tie back to statement of financial position and statement of operations if applicable.



Notes to the Financial Statements

- Nature of the Organization
- Significant accounting policies
- Other notes
 - Provide detailed information for line items on the statement of financial position
 - Provides other information deemed necessary to disclose anything pertinent for users of the financial statements



Reserves

- Reserves Internally Restricted Net Assets
 - Should serve a purpose and be reviewed periodically
 - Subject to board approval
 - Cannot be used for other purposes without a valid reason
 - Very useful in communicating an organizations long term plans if used properly
 - Goes hand in hand with budgeting (both operating and capital)



Reserves - example

	Capital – vehicles	Capital – building	Operating – Project #1	TOTAL
Balance, beginning	15,000	85,000	50,000	150,000
Transfer from Unrestricted net assets	2,500	5,000	2,500	10,000
Balance, ending	17,500	90,000	52,500	160,000

Understanding Financial Statements



Why have Accurate Statements

- Objectives of financial statements:
 - Communicate information to users
 - Determine financial health (key concept)
 - Assisting in the decision making process
 - Make financial information publicly available accountability

BREAK TIME



5 minutes

AGENDA



1 2 Understanding Financial Statements Financial Controls Governance Conclusion

FINANCIAL REPORTING



Misconception About Financial Statements

- Who do the financial statements belong to? Whose are they?
 - Not the auditors/accountants
 - Audit report is the auditors
 - Review report is the accountants



Types of Reports

- Compilation/Notice to Reader
 - No assurance
- Review Engagement
 - Limited assurance
- Audit
 - High assurance



Financial Statement Responsibility

- Finance department:
 - Enters "transactions" and generates financial statements
- Management:
 - Reviews for accuracy and completeness



Financial Statement Responsibility

- Board / Directors:
 - Approve
 - HAVE ULTIMATE RESPONSIBILITY

- Auditor:
 - Provides an opinion on "fairness" only



Management's Responsibility

To the Members of Non Profit Society:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Committee is also responsible for recommending the appointment of the Organization's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

[Audit Report Date]

[Chief Executive Officer, or other senior officer]

[Chief Financial Officer, or other senior officer]



Audit Report

- Opinion
- Basis for Opinion
- Emphasis of Matter
- Other Information
- Responsibilities of Management and Those Charged with Governance for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements



Auditors' Opinions

- Unqualified Opinion
 - Means no significant issues and financial statements are presented <u>fairly</u>, in all material respects.
- Qualified Opinions
 - Scope limitation auditor couldn't audit something
 - GAAP departure financial statement not prepared with all accounting standards
- Disclaimer of Opinion
 - Auditor couldn't audit something important
 - Really big or important scope limitation
- Adverse Opinion
 - Financial statements not prepared with accounting standards
 - Really big or important difference from GAAP

AGENDA



1 2 3 Financial Statements Financial Statements Governance Conclusion

CAPITAL BUDGETS



Capital structure does not just mean capital assets

- Regardless of size, most organizations have a capital structure to consider
 - Asset purchases
 - Investments (cost to produce a product for sale)
 - Building operating reserve
 - Eliminating a deficit
- Furniture, equipment and technology
 - Maintenance, repair & replacement
 - Building acquisition and construction projects

FRAUD RISKS



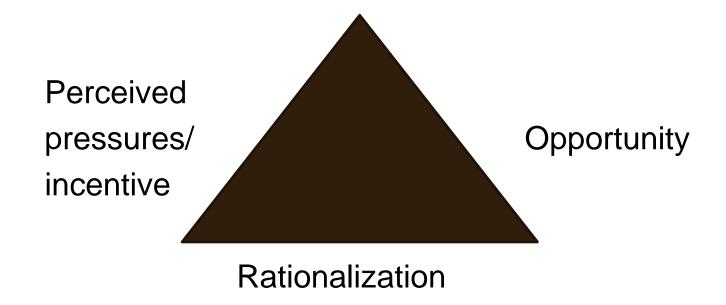
- How could fraud and error occur in your organization?
- Cash receipts
- Access to assets and the accounting records (lapping of A/R)
- Lack of reporting to the Board
- Access to accounting records (passwords)
- Expenditures (no approval procedures)



FRAUD RISKS



Fraud Triangle



*20/60/20 rule



Board of Directors

- Timeliness & sufficiency of reports
- Frequency of meetings
- Independence from management
- Experience/competence of directors



Management

- Ability to provide necessary information
- Transaction authorization limits defined
- Segregation of duties (assets vs records)
- Communication and enforcement of integrity and ethical values
- Established policies and procedures



Human Resource Policies & Procedures

- Hiring, training, evaluation & promoting
- Job descriptions
- Performance evaluation
- Monitoring of vacation time
- Bonding/screening



Accounting System

- Appropriate record keeping
- Transaction documentation complete
- Management review of reports and analysis of variances
- Monitoring/testing of new/enhanced systems
- Records backed up

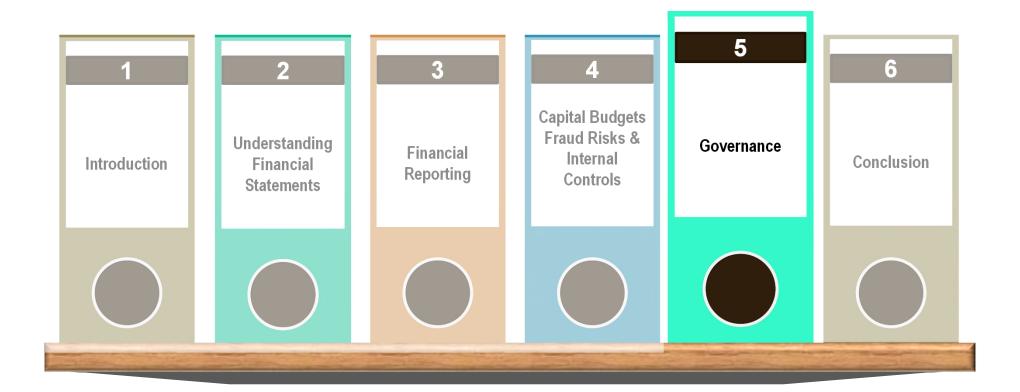


Risk assessment

- SWOT analysis
- Procedures to identify business risks, their significance, likelihood of occurrence and monitoring of these risks
- Review of insurance coverage
- Awareness of compliance with laws & regulations
- Safeguard of physical assets
- Disaster recovery plan

AGENDA







Board of Directors

- What is my role?
 - Participate:
 - Monthly reporting
 - Budgeting
 - Annual audit
 - Asking questions of management or auditors.
 - Approve:
 - Monthly reporting
 - Budgeting
 - Annual audit
 - Communicate:
 - Provide strategic direction to management
 - Evaluate performance of Executive Director
 - Discuss risks and concerns with Auditor
 - Understand the audit process



Management

- What is my role?
 - Participate:
 - Prepare monthly reporting
 - Does everything make sense?
 - Budgeting
 - Prepare, follow, compare to actual results
 - Annual audit
 - Implement auditor's recommendations
 - Approve:
 - Monthly reports for funders and Directors
 - Expenditure support
 - POs
 - Supplier invoices
 - Timesheets
 - Appropriate reconciliations
 - Communicate:
 - Operational plans to Directors
 - Operational plans and budgets to staff
 - Oversee controls
 - · Discuss risks and concerns with Auditor
 - Understand the audit process



What type of Board are you?

Operational Board

- Assist in day-to-day transactions
- Involved with staff/customers/suppliers
- Meet often, quite involved
- Typical for small organization with limited number of or no staff

Governance Board

- Set policy, strategy, etc.
- Only involved with CEO/Executive Director
- Meet less often, not involved in operations
- Typical for larger organizations with qualified staff



Legal Responsibilities

- Duty of Care
 - Duty to act honestly
 - Duty of diligence
 - Duty to exercise power
 - Duty of obedience
- Duty of Loyalty
 - Must act in best interest of organization and not your own interest (or your family or friends, or even the other members of your Chamber of Commerce)
 - Must avoid conflict of interests



Key Responsibilities

Process:

- Understand mandate/mission
- Create strategic direction
- Set policy
- Approve procedures
- Review reports
- Ask questions, ask more questions
 - Is there directors' liability insurance
 - Is there indemnification procedures
 - What is the conflict of interest policy
 - Is the mandate clear
 - Is there a board manual
 - What is in the by-laws
 - Are employee deductions remitted to CRA



Other key responsibilities:

- Hire, set goals for, evaluate CEO/Executive Director
- Approve key financial information
 - Budgets, financial statements, salary grids
- Assess risks
 - Fraud, loss, change in operations, insurance



Top 15 Mistakes

- 1. Failing to understand fiduciary duties
- 2. Failing to provide effective oversight
- 3. Deference to the executive committee, board chair or organization's founder
- 4. Micro-managing staff
- 5. Avoiding the hard questions
- 6. Insufficient conflict management
- 7. Lack of awareness of laws governing tax-exempts
- 8. Operating with outdated, inconsistent governing documents



Top 15 Mistakes (continued)

- 9. Airing disagreements outside the boardroom
- 10. Failure to cultivate board diversity
- 11. Recruiting and selecting board members without due care
- 12. Failing to educate and motivate board members
- 13. Failing to document actions appropriately
- 14. Failing to review program effectiveness and efficiency and take appropriate follow-up actions
- 15. Failing to hold executives (and nonparticipating directors) accountable



• What if I don't do my role (Board of Directors)?

- Lack of support/accountability for management
- If on a Board, and the entity can not pay its bills, then <u>you may</u> <u>personally</u> be responsible for certain expenses, like payroll deductions to Canada Revenue Agency, etc.

What if I don't do my role (Manager)?

- Inability to provide services to members
- Staffing and operational issues
 - i.e. inappropriate use of resources
- Stress

AGENDA



1 2 3 4 5

Understanding Financial Statements Fraud Risks & Internal Controls

Governance

Conclusion



QUESTIONS?







