



Setting the Standard for Great Teaching  
Fixer la norme pour un enseignement de qualité

# Memo

**Date:** September 10, 2020  
**To:** Members of Council  
**From:** Diane Ballantyne, OCT  
 Chair, Finance Committee  
**Subject:** Report of the Finance Committee

## Committee Meetings Dates

The committee met on May 26, June 3 and August 25, 2020.

## Summary of Discussions

Following the implementation of the newly enhanced budget creation process, the chairs of various committees shared the content of their committee-level preliminary budget discussions with the Finance Committee. The department directors also presented their preliminary budgets to the committee, and a summary of the resulting questions and answers is attached to this report (Attachment 2).

The Controller reviewed the preliminary 2021 financials outlining revenue and expenditure assumptions and preliminary discussions on a fee-setting strategy began. A report on this issue will be presented at a future Council meeting.

Finally, a mortgage working paper outlining renewal considerations was presented to the committee. The College's mortgages renewed effective July 2020. The renewal details are reflected in the table below. Similar to the expired loans, the bank will require the College to continue to pledge assets to secure the loans commonly referred to as collateral. The Finance Committee has reviewed loan renewal options and the terms and conditions, and is seeking Council's endorsement of the pledging of assets to secure the new loans as outlined in the motion below.

Mortgage Schedule	
Loan 1	\$6,799,765.65
Interest Rate	3.04%
Term	60 months
Amortization	20 years
Payment Frequency	Monthly
Payment Amount	\$37,847.64

<b>Loan 2</b>	\$6,799,765.65
Interest Rate	3.54%
Term	120 months
Amortization	20 years
Payment Frequency	Monthly
Payment Amount	\$39,575.81

### **Motions Referred to Council**

The Finance Committee recommends:

**That Council authorize the renewal of all existing borrowing facilities with BMO-Bank of Montreal and herewith acknowledge that all existing security, including the existing collateral mortgage security, continues to be pledged to the bank.**

### **Committee Mandate/Duties**

The Finance Committee reviews and reports to Council regarding the financial affairs and position of the College and recommends an annual budget to Council. The Finance Committee also functions as the Audit Committee of the College and makes recommendations to Council with respect to the appointment of the auditor and approval of the annual audited financial statements.

### **Future Meeting Date(s)**

The committee has confirmed October 21, 2020 as the next meeting date.

### **Committee Members**

Diane Ballantyne, OCT (Chair)  
 Mary Ellen Gucciardi, OCT  
 Colleen Landers, (Vice Chair)  
 Vincent Rinaldo, OCT  
 Nicole van Woudenberg, OCT



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 Diane Ballantyne, OCT, Chair

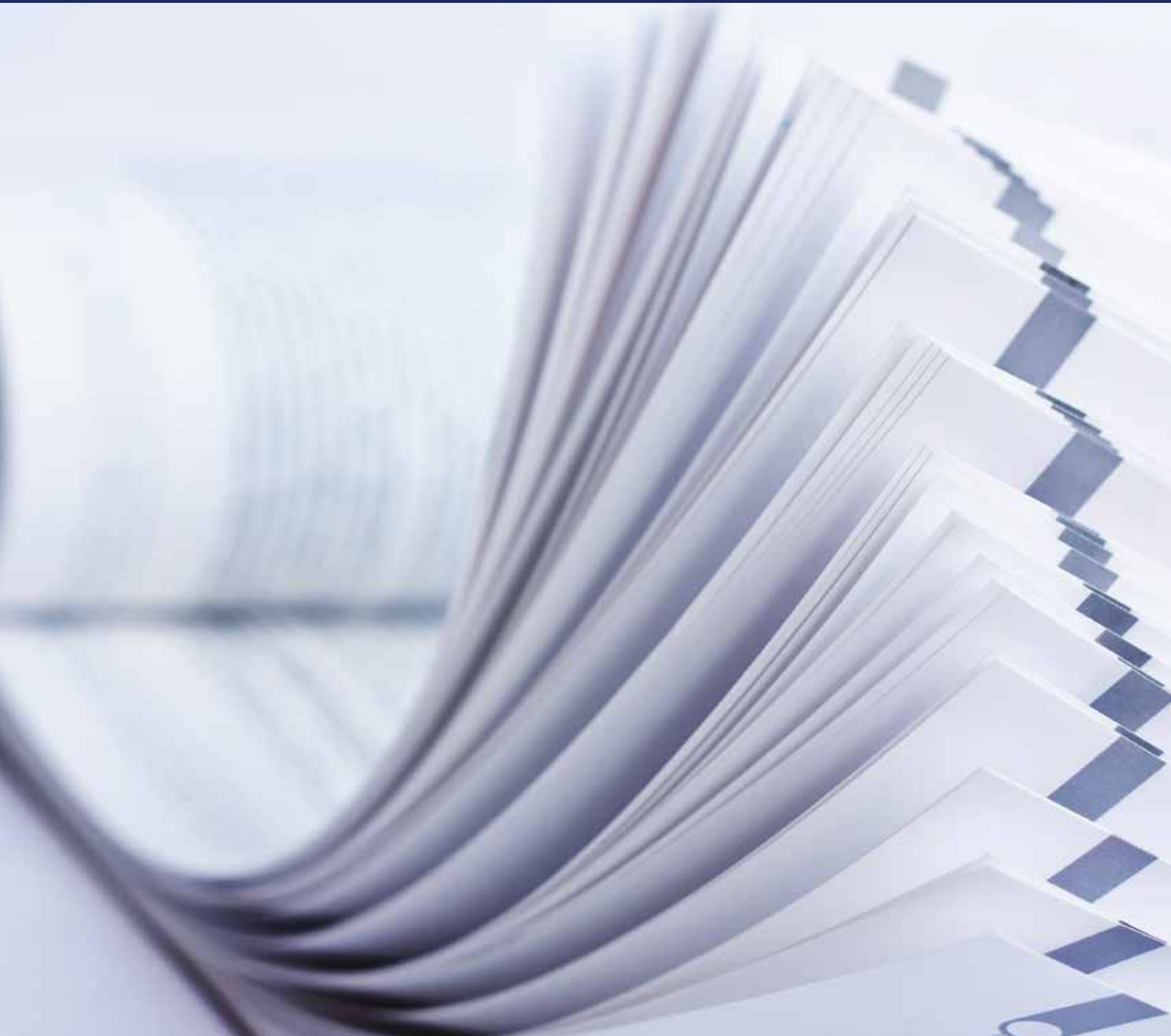


Ontario  
College of  
Teachers

Ordre des enseignantes  
et des enseignants  
de l'Ontario

# 2021 Budget Program Highlights

Council Budget Proposal  
October 2020



## College Vision

Trusted to regulate the teaching profession in Ontario.

## College Mission

Placing students' interests and well-being first by regulating and promoting excellence in teaching.

## Values

The Ontario College of Teachers commits to:

- Protect the public interest
- Quality, excellence and professionalism
- Honesty and integrity
- Accountability and transparency
- Efficiency, effectiveness and fiscal responsibility
- Sustainability
- Inclusivity and respect for diversity
- Respectfulness and teamwork between the College Council, staff and stakeholder community, each respecting the other's role

## College Strategic Priorities

### 1. Strengthen Transparency and Accountability

- develop objective and subjective key performance indicators for the College that are measurable, observable and perceivable
- make improvements to the discipline process to better reflect public expectations
- use plain language internally and externally in all communications to better connect the public and College members to the work of the College

### 2. Manage Risk More Strategically

- Council meetings focus more on managing risk and less on operational issues
- increase public awareness of the ongoing professional development activities of all College members
- annually conduct an environmental risk scan
- analyze College data and trends as a basis for creating additional guidance and member resources
- utilize the recommendations of the 2018 Governance Review to ensure improved governance and oversight

### 3. Improve Stakeholder Engagement

- clarify and better communicate the privilege and benefits of self-regulation
- enhance the effectiveness of collaboration with government, constituent organizations and other regulators



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# Executive Summary

## Trusted to regulate the Teaching Profession in Ontario

The Ontario College of Teachers 2021 budget allocates funding to core program areas in an effort to meet the College's strategic objectives. The 2020 operating period was marked by the outbreak of COVID – 19. A critical response team was formed early in the pandemic outbreak to both assess and address risk factors.

After a year of uncertainty created by the global pandemic, operating assumptions for 2021 are predicated on a return to relatively normal operations. Ongoing due diligence and monitoring of environmental factors impacting the College will be critical.

The year over year revenue sources for the College are expected to remain relatively consistent with little change to the membership portfolio for 2021. Membership fees will remain unchanged from 2020 levels at \$170.

College program budgets continue to reflect an across the board funding freeze with the exception of 2021 cost drivers related to the planned College elections, annual salary and benefit adjustments, and capital expenditures for facilities and information technology projects.

The 2021 budget will require a draw from reserve forecasted at \$457,138. This planned draw down will not adversely impact financial risk factors as the reserve balance is expected to remain within acceptable limits for risk at a forecasted balance of \$4,579,886.





# Statement of Financial Objectives

Successive College Councils have endorsed the following strictures to emphasize sound financial management practices.

## Services will be appropriately funded:

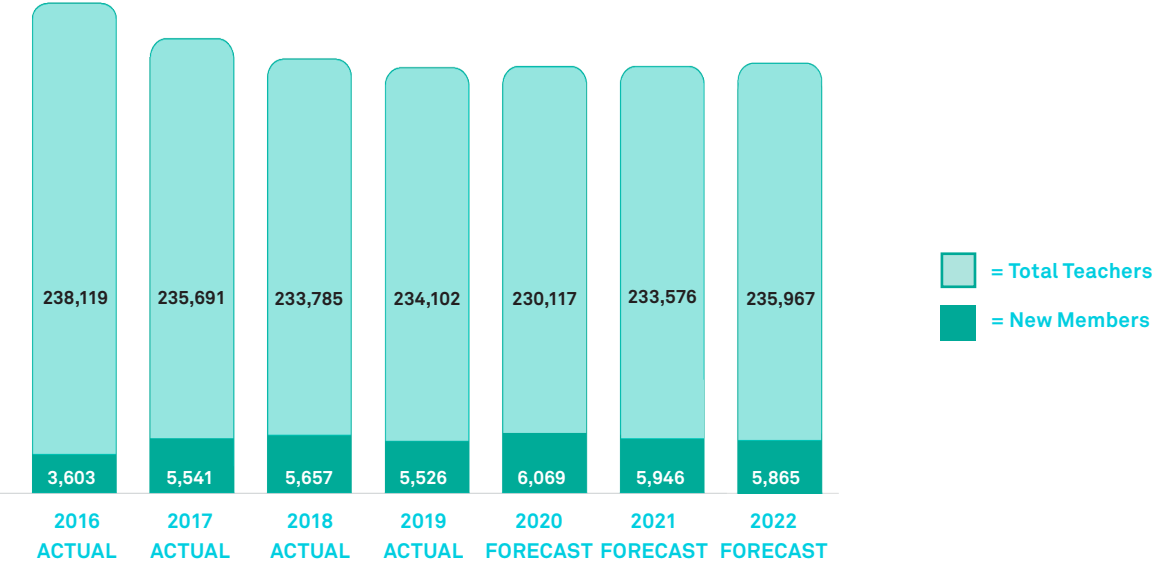
- **to meet legislative requirements.**  
The *Ontario College of Teachers Act* establishes the responsibilities and obligations of the College. The financial plans of the College will provide adequate resources in this regard.
- **to provide good member service.**  
The College members deserve a high standard of service from their professional body. Applicants to the profession should also be impressed with excellent service. In establishing financial plans, excellence in member services will be observed as a primary principle.
- **with adherence to principles of economy, efficiency and effectiveness.**  
The College's financial plans will be built on policy and procedures, which will ensure that the College is employing the best methods to achieve economy, efficiency and effectiveness in its operation.
- **to set fees at reasonable levels.**  
The College will strive to minimize member fees and set reasonable fees for special services.
- **to accumulate financial resources thereby ensuring stability and independence.**  
The College will do this by responding to unexpected risks, by taking advantage of opportunities and by stabilizing annual membership fees.

# College Membership Summary

The Ontario College of Teachers has one of the larger memberships amongst Canadian regulators. The organization benefits from having both one of the lowest staff to member ratios and the lowest member fees in the country providing valuable services while

maintaining sound financial stewardship. Membership numbers will be relatively stable over the next few years, benefitting from an annual replenishment of graduates from the teacher education program.

## Ontario Teacher Membership Trendline



The seven-year trend line illustrates the impacts of introducing a four semester teacher education program and reflects labour market fluctuations in the demand for teachers.

Table 1.0

Regulatory Body	Members	Staff	Operating Budget	# of Members per Staff
Ontario College of Teachers	233,346	177.5	\$ 41,883,142	1,314.63
College of Physicians & Surgeons of Ontario	33,500	420	\$ 69,000,000	79.76
Royal College of Dental Surgeons of Ontario	10,000	115	\$ 26,700,000	86.96
Chartered Professional Accountants of Ontario	90,126	300	\$ 93,900,000	300.42
College of Professional Engineers of Ontario	83,245	108	\$ 26,100,000	770.79
College of Nurses of Ontario	168,816	225	\$ 44,500,000	750.29

# New Members by Source

The College has admitted a similar number of new teacher graduates over the past few years. The number of graduates reflect job prospects which are forecasted to remain constant.

New Ontario Members by Source	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
Ontario Graduates Consecutive	2,676	2,774	3,313	3,372	3,371
Ontario Graduates Concurrent	1,124	990	891	802	722
Ontario Faculty - Multi - Session Grads	66	91	91	91	91
OISE U of T Masters Degree Programs	632	441	544	451	451
Permit Colleges	184	218	218	218	218
U.S. Border Colleges	72	68	68	68	68
Labour Mobility Other Provinces	332	313	313	313	313
Other Countries	571	631	631	631	631
Total New Members	5,657	5,526	6,069	5,946	5,865

## Ontario Graduates Consecutive

This category includes all Ontario university teacher education consecutive programs.

## Ontario Graduates Concurrent

This allocation for concurrent graduates forecasts for the period 2019 to 2022 with an expected 10% per annum downward trend as reported by MTCU.

## Ontario Faculty - Multi - Session Graduates

This allocation includes Ottawa French language, Native language, and Tech graduates.

## OISE U of T Masters Degree Programs

The OISE/Masters of Teaching and Master of Arts in Child Study graduates are forecasted to remain steady over the next few years.

## Permit Colleges

The permit colleges, which include Tyndale, Niagara, and Redeemer are forecasted to continue to produce a low but steady cohort of graduates similar to past trends.

## U.S. Border Colleges

Although some New York State border colleges (Canisius, D'Youville, Medaille) established ETEP modelled programs for Ontario graduates, few Ontarians are expected to register in the next few years.

## Labour Mobility Other Provinces

This forecast assumes a continuing low volume of teachers migrating to Ontario until the new teacher employment prospects improve in Ontario.

## Other Countries

This assumes that the volume of new members educated outside Canada will increase gradually as an improved employment market is realized.

# 2021 Sources of Revenue

Sources of Revenue	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Annual Membership Fees	\$ 35,265,312	\$ 39,543,870	\$ 39,120,000	\$ 39,707,920	\$164,050
Other Fees	\$ 1,429,342	\$ 1,884,010	\$ 1,015,500	\$ 1,534,690	\$ (349,320)
Advertising Revenue – Magazine	\$ 683,962	\$ 775,000	\$ 775,000	\$ 775,000	-
Advertising Revenue – Website	\$ 102,961	\$ 80,000	\$ 80,000	\$ 80,000	-
External Project Funding	\$ 12,188				-
Investment and Other Income	\$ 567,915	\$ 320,000	\$ 310,000	\$ 360,000	\$ 40,000
Total Revenue	\$ 38,061,480	\$ 42,602,880	\$ 41,300,500	\$ 42,457,610	\$ (145,270)

## Annual Membership Fees

The annual membership fee of \$170 multiplied by the number of members (233,576), is the basis for revenue.

## Other Fees

The College charges fees for member and applicant services. The most significant include: registration, evaluation, and reinstatement fees.

Registration fees are paid by all first time applicants to the College and evaluation fees are paid by those educated outside Canada. Registrations will remain constant in 2021. Evaluation fee revenue and reinstatement fee revenue are expected to decline based on forecasts. The variety of miscellaneous fees for transcripts, certified copies of records and certificates of registration and qualification represents less than \$75,000 of the overall College revenue and fluctuates from year to year with no major variance. Also included in other fees is a \$20,000 allotment for in-service accreditation program offerings.

## Advertising Revenue - Magazine

*Professionally Speaking / Pour parler profession*, the quarterly College magazine for members, generates advertising revenue. Print ad sales promote advertising partners' products and services.

## Advertising Revenue - Website

The College charges vendors to advertise on the website and on other forms of electronic media.

## External Project Funding

The College receives funds from outside partners to pursue projects of mutual benefit. The Ministry of Education has discontinued funding related to the *Transition to Teaching Study*.

## Investment and Other Income

The College invests funds not immediately required for operations in short-term investments as approved by College bylaws emphasizing a conservative approach focusing on liquidity and preservation of principal. The rates of return on College investments are not expected to vary much in 2021.

## College Fee History

\$90.00	↑	\$104.00	↑	\$139.00	↓	\$120.00	↑	\$138.00	↑	\$150.00	↑	\$170.00
1997 – 2001		2002		2003 – 2004		2009 – 2011		2012 – 2013		2014 – 2019		2020 – 2021

# 2021 Proposed College Budget

Statement of Operations	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Revenue	(\$)	(\$)	(\$)	(\$)	(\$)
Annual Membership Fees	35,265,312	39,543,870	39,120,000	39,707,920	164,050
Other Fees	1,429,143	1,884,010	1,015,500	1,534,690	(349,320)
Advertising Revenue - Magazine	683,962	775,000	775,000	775,000	
Advertising Revenue - Website	102,961	80,000	80,000	80,000	
External Project Funding	12,188				
Investment and Other Income	567,915	320,000	310,000	360,000	40,000
Total Revenue	38,061,480	42,602,880	41,300,500	42,457,610	(145,270)
Expenses					
Employee Compensation	21,938,104	23,255,316	23,145,686	23,874,508	619,192
Council and Committees	705,247	810,870	595,610	898,470	87,600
Membership Services Department	45,812	66,000	56,229	66,000	-
Investigations and Hearings	6,066,117	4,790,420	5,389,140	4,790,420	-
Standards of Practice and Accreditation	538,459	700,200	447,958	700,200	-
Office of the Registrar and Finance	605,876	698,000	614,400	698,000	-
Corporate and Council Services	7,348,749	8,333,750	7,792,895	8,333,750	-
Council Elections		105,000	-	286,500	181,500
Occupancy Costs 101 Bloor West	1,911,354	2,146,300	2,021,100	2,146,300	-
Amortization	2,186,462	3,216,378	2,740,211	3,197,579	(18,799)
Total Expenses	41,346,179	44,122,234	42,803,229	44,991,727	869,493
Gross Surplus / (Deficit)	(3,284,699)	(4,439,802)	(1,502,729)	(2,534,117)	-
Add: Amortization, (Non-Cash Item)	2,186,462	3,216,378	2,740,211	3,197,579	
Less: Capital Expenditures	1,554,701	700,000	700,000	1,120,600	
Net Surplus / (Deficit)	(3,916,460)	997,024	537,482	(457,138)	



# Budget Highlights

Summary of year-over-year net changes

## Revenue

### Annual Membership Fees

**+ \$164,050**

Reflects no change to the fee and a year-over-year flat membership revenue trend.

### Other Fees

**- \$349,320**

Reflects adjustments to registrations, evaluations, and reinstatements to reflect volume estimates and past experience.

### Investment and Other Income

**+ \$40,000**

Investment income is forecasted to increase slightly in 2021.

**Net Decline in Revenue - \$145,270**

## Expenses

### Employee Compensation

**+ \$619,192**

Represents salary base adjustments including prorated consumer price index adjustments of .8% \$147,040, salary range and band adjustments \$123,093, staff replacement net increases and position reclassifications \$186,653, variable incentive adjustment \$24,208 and benefit adjustments related to the Canada Pension plan and employee pension plans, \$138,198.

### Council Elections

**+ \$181,500**

Reflects election costs related to magazine (layout and design, printing and postage), translation, web design and posting of candidate material required by regulation. Also included are voter participation costs for ads in stakeholder publications, posters and promotional material. Voting application upgrades to reflect regulatory amendments to the ballots, voting application security monitoring during the election period and the cost of engaging auditors to validate the process and results.

### Corporate and Council Services

**+ \$87,600**

Represents one-time adjustments for the new Council related to supplying information technology equipment.

### Amortization

**- \$18,799**

Depreciation expense will decrease in 2021 based on the College asset mix.

**Net Increase in Expense + \$869,493**

# College Reserve Fund Accounting

The operating reserve policy reduces financial risk by providing a degree of funding stability for College programs and operations. Restricted cash provides an internal source of funds for sudden increases in expenses, one-time unbudgeted expenses, unanticipated losses in funding, uninsured losses, and low-risk investment opportunities that save money or reduce operating expenses.

By setting aside two months of cash flow, ongoing operations, programs, unplanned opportunities, and liabilities can be addressed. The College monthly cash flow includes all recurring predictable expenses, such as salaries and benefits, occupancy, office, travel, program and ongoing professional services, capital expenditures, but excludes non-cash expenses. In addition to maintaining up to two months of cash, the College can on occasion set aside additional cash reserves for a specified financial or program objective with a measurable period and outcome at the discretion of Council.

The College restricted cash balance is comprised of tax rebates and annual budget surpluses. These funds have accumulated in the cash

account under the classification of restricted reserves. The financial strategy for surplus cash has been to address annual operating budget shortfalls with reserve offsets, ensuring member fees have not risen in successive years. The accumulation of restricted reserves also provides a degree of financial flexibility and agility to seize financial opportunities that save the College money such as paying down the mortgage when the opportunity arose.

The ongoing objective to maintain sufficient balance sheet health protects the College's interests by enabling us to focus on the stability and continuity of day-to-day operations. Regulators routinely set aside a number of months' worth of operating expenses or a predetermined dollar amount as a rule of thumb. The current restricted cash balance is \$4.0 million.



# Sources of Restricted Cash

2012 fee stabilization balance

**\$457,000**

Property tax and GST/HST recovery contribution

**\$2,977,000**

2015 operating budget surplus

**\$2,611,897**

2016 operating surplus

**\$906,061**

2018 operating reserve draw

**(\$629,523)**

2020 restricted cash balance

**\$4,010,433**

2013 operating budget surplus

**\$255,000**

2014 operating budget surplus

**\$2,303,000**

2016 mortgage prepayment

**(\$1,849,048)**

2017 operating budget surplus

**\$711,513**

2019 operating reserve draw

**(\$3,732,467)**

# College Elections

Council Elections	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Council Elections	-	\$105,000	-	\$ 286,500	\$ 181,500
Total	-	\$105,000	-	\$ 286,500	\$ 181,500

### Council Elections

By January 2021 the nomination process will be complete with all candidates confirmed. Candidate information required under the regulation will be shared with College members in the March issue of the magazine and online ahead of the voting period running from March 8 to April 12. Audited election results will be shared online, via the College’s e-newsletter *Your College & You* and in the June issue of the College’s magazine.

The 2021 budget allocation includes a request for \$286,500 as follows:

- \$218,000 to cover the costs of the election related pages in the magazine (layout and design, printing and postage), translation, web design and posting of candidate material and the results of the election as required by regulation.
- \$12,000 for initiatives approved by the Governance Committee designed to increase voter participation including ads in stakeholder publications, posters and promotional material
- \$56,500 to cover enhancements to the voting application which determines the ballots received by members, voting application security monitoring during the election period and the cost of engaging auditors to validate the process and results.

# Council and Committees

Council and Committees	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Council	\$ 451,502	\$ 520,370	\$ 350,000	\$ 607,970	\$87,600
Chair of Council	\$ 253,745	\$ 290,500	\$ 245,610	\$ 290,500	-
Total	\$ 705,247	\$ 810,870	\$ 595,610	\$ 898,470	\$87,600

## Council and Committees

Funding is provided for Council members to attend meetings. The budget is based on a standard rate of \$1,150 per day, including return travel costs, one-day of accommodation, meals and one-day teacher replacement costs. Appointed member per diems and travel costs are recovered from the Ministry of Education. Other costs allocated under this budget include provision for services and equipment directly related to Council meetings. For 2021 a provision has been made for information technology equipment for the new Council.

## Chair of Council

The Chair receives a budget provision for compensation, travel, and living expense.

# Membership Services

Membership Services	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Membership Services Administration	\$ 15,659	\$ 30,800	\$ 27,075	\$ 30,800	-
Evaluation Services	\$ 6,827	\$ 9,900	\$ 8,135	\$ 9,900	-
Member Services	\$ 10,741	\$ 8,800	\$ 8,219	\$ 8,800	-
Membership Records	\$ 12,584	\$ 16,500	\$ 12,800	\$ 16,500	-
Total	\$ 45,812	\$ 66,000	\$ 56,229	\$ 66,000	-

## Membership Services

The funding allocation for membership services relates to membership administration, call center operations, membership records, evaluation activities, meetings and travel expenses for departmental staff members.

# Investigations and Hearings

Investigations and Hearings	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
I & H Administration	\$ 16,886	\$ 96,200	\$ 14,200	\$ 101,630	\$ 5,430
Intake & Hearing Activities	\$ 37,764	-	-	-	-
Investigations Activities	\$ 116,753	\$ 100,000	\$ 75,000	\$94,570	(\$ 5,430)
Investigation Panels	\$ 87,677	\$ 90,200	\$ 90,200	\$ 90,200	-
Discipline Activities - Professional Conduct	\$ 4,739,108	\$ 3,377,420	\$ 4,261,500	\$ 3,366,420	(\$ 11,000)
Discipline Panels - Tribunals	\$ 464,835	\$ 656,100	\$ 583,230	\$ 669,100	\$ 13,000
Fitness to Practise Activities - Professional Conduct	\$ 554,236	\$ 407,900	\$ 316,710	\$ 392,900	(\$ 15,000)
Fitness to Practise Panels - Tribunals	\$ 48,858	\$ 62,600	\$ 48,300	\$ 75,600	\$ 13,000
Total Investigations and Hearings	\$ 6,066,117	\$ 4,790,420	\$ 5,389,140	\$ 4,790,420	-

## I & H Administration

The administration allocation includes provision for department travel, conferences, meeting and administrative costs. For 2021, \$5,430 has been transferred in from Investigations to consolidate administrative costs under one cost centre.

## Intake and Hearings Activities

The allocation includes training and travel costs for staff involved with complaints related to intake and hearing. This cost centre budget was transferred to I&H administration.

## Investigations Activities

The Investigations budget includes general counsel, expert opinions and consultants, inscription services, staff travel, meetings and materials costs. For the 2021 budget, \$5,430 has been transferred to I&H administration to consolidate administrative costs under one cost centre.

## Investigation Panels

The budget provides for meeting and deliberations costs and for the cost of travel, release time, and food for panel activity equivalent to 30 panels per annum.

## Discipline Activities – Professional Conduct

This allocation represents the largest expenditure for the department and provides for external legal counsel and related legal disbursements. For 2021, \$11,000 has been transferred to Tribunals to fund training.

## Discipline Panels - Tribunals

This allocation provides for release time, panel meeting costs, independent counsel, panel court reporter, witness, expert opinion, simultaneous translation, individual interpreter costs and transcriptions of panel discussions. For 2021, \$13,000 has been transferred in to fund training.

## Fitness to Practise Activities – Professional Conduct

This allocation provides for external legal counsel and related legal disbursements. For 2021, \$15,000 has been transferred to Tribunals to fund training.

## Fitness to Practise Panels - Tribunals

This allocation provides for panel meeting costs, independent counsel, panel court reporter, witness, expert opinion, simultaneous translation, individual interpreter costs and transcriptions of panel discussions. For 2021, \$13,000 has been transferred in to fund training.



# Standards of Practice and Accreditation (SPA)

Standards of Practice and Accreditation	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Administration	\$ 34,863	\$ 62,900	\$ 47,858	\$ 62,900	-
Accreditation	\$ 158,874	\$ 216,360	\$ 175,300	\$ 216,360	-
Standards of Practice and Education	\$ 344,721	\$ 420,940	\$ 224,800	\$ 420,940	-
Total Standards of Practice and Accreditation	\$ 538,459	\$ 700,200	\$ 447,958	\$ 700,200	-

## Administration

Standards of Practice and Accreditation administration budget provides for departmental and stakeholder/faculty/school of education meetings in both pre-service and in-service programs, conferences, training, presentations, travel and administrative costs, and other administrative expenses for policy change and ongoing regulatory development initiatives.

## Accreditation

This budget allocation provides support for anticipated substantial changes or new additions to pre-service programs, as well as travel, release time, honoraria, regulator meetings, panel meetings, orientation/training, and other administrative costs associated with pre-service reviews of teacher education programs to ensure they meet regulatory requirements for accreditation at Ontario faculties of education.

## Accreditation Pre-Service Reviews

Due to the nature of the accreditation work, many reviews start before the year end and finish in the next budget year. Allocation of funds captures the flexibility of pre-service review cycles. The unit is preparing for three full pre-service reviews for renewal of accreditation : Université d'Ottawa French-language programs, Ottawa University English Indigenous teacher education program and Queen's University deferral of review from 2020 to 2021 due to COVID-19.

## Accreditation Program Changes Reviews

As in recent years, there is a possibility that a number of program change applications are anticipated in 2021-2022.

## Standards of Practice and Education

This budget allocation supports education, research and integration of the ethical standards, standards of practice and the professional learning framework within initial teacher education, continuing teacher education and professional practice. Additional Qualification policy development, research and regulatory changes are also included.

The accreditation of Additional Qualifications and ongoing provincial capacity building are also supported in this budget allocation. The collaborative development of standards-based teacher education resources are also included in this budget. The budget also supports travel, release time for members of the profession, honoraria, consultations, meetings, research, program development related to teacher education/practice, and other administrative costs that support the research activities. The unit will be supporting educators as they transition to the new reality created by COVID-19 emphasizing new ways of providing classroom learning; example: on-line learning.

# Office of the Registrar and Finance

Office of the Registrar and Finance	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Registrar	\$ 25,185	\$ 45,000	\$ 22,000	\$ 45,000	-
Deputy Registrar	\$ 37,491	\$ 50,000	\$ 35,000	\$ 50,000	-
Revenue Collection Fees	\$ 351,997	\$ 406,000	\$ 395,400	\$ 406,000	-
Accounting Services and Professional Fees	\$ 121,875	\$ 117,000	\$ 82,000	\$ 117,000	-
Insurance	\$ 69,328	\$ 80,000	\$ 80,000	\$ 80,000	-
Total	\$ 605,876	\$ 698,000	\$ 614,400	\$ 698,000	-

## Registrar

The Registrar funding allocation supports travel, conferences, dues and subscriptions, meetings and administrative costs.

## Deputy Registrar

The Deputy Registrar funding allocation supports travel, conferences, dues and subscriptions, meetings and administrative costs, similar to the Registrar's allocation but reflecting a few more external stakeholder sessions.

## Revenue Collection Fees

This allocation supports service fees for the automated processing of College membership fees and fee collection via credit card transactions. Also included is postage expense for member mailings.

## Accounting Services and Professional Fees

This allocation is required for annual audit fee expense and consulting services associated with accounting systems, payroll services, and bank service fees.

## Insurance

The insurance budget includes general insurance coverage for Liability and Property insurance for the College office premises, Directors' and Officers' liability, and Employment Practices liability insurance.



# Corporate and Council Services

Corporate and Council Services	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Administration	\$ 24,371	\$ 36,500	\$ 28,000	\$ 36,500	-
Transition to Teaching Study	\$ 42,454	\$ -	\$ -	\$ -	-
Human Resources	\$ 165,876	\$ 164,800	\$ 164,750	\$ 164,800	-
Projects and Programs	\$ 216	\$ 50,250	\$ 44,000	\$ 50,250	-
Communications	\$ 3,218,728	\$ 2,989,550	\$ 2,871,195	\$ 2,989,550	-
Policy and Research	\$ 849,297	\$ 1,048,350	\$ 750,000	\$ 1,048,350	-
Business Services	\$ 398,674	\$ 483,000	\$ 373,650	\$ 483,000	-
Information Services	\$ 2,649,133	\$ 3,561,300	\$ 3,561,300	\$ 3,561,300	-
Total	\$ 7,348,749	\$ 8,333,750	\$ 7,792,895	\$ 8,333,750	-

## Administration

The administration allocation includes provision for travel, training, conferences, consulting services, and meeting and administrative costs.

## Transition to Teaching Study

The Transition to Teaching study focuses on job search approaches for teaching graduates and demographic analysis, surveying and trend identification in the educational sector. Responsibility for this work effort was transferred to the Project and Programs budget in 2020.

## Human Resources

This allocation provides for recruitment advertising, HR management training, and professional services for employees.

## Projects and Programs

The Projects and Programs unit leads and manages projects and activities in support of organization-wide deliverables. Project work includes the coordination of College staff and resources to enable the development, launch

and operationalization of new or one-time initiatives. Also included in this budget envelope is funding for the *Transition to Teaching Study*.

## Communications

The budget provides for advertising, media relations, and translation services for the College. Communications leads the design and printing of the quarterly magazine, the annual report, the Certificates of Registration and Qualification and a variety of program area documents and educational materials. The College uses communications materials to publicize annual meetings, annual reports, notices of nomination and election, findings and orders, Council decisions and regulatory requirements. Communications is also responsible for all College paper supplies, forms and documents, printed letterhead, envelopes, stationery items, office supplies, postage and courier services, production centre copiers and mailing equipment, and floor walk-up copiers.

## Policy and Research

The Policy and Research budget allocation includes provision for administrative legal advice, legal costs related to panel and appeal

hearings, consulting, audit fees associated with the Fair Access to Regulated Professions Act (FARPA), annual general meeting and support to Council. It also provides for expenses related to the Executive, Steering, Governance, Quality Assurance, Registration Appeals, Accreditation Appeal and ad hoc committees.

Policy and Research also has an allocation for External Relations that provides for activities that communicate the College mandate and programs to external stakeholders, prospective teachers and to the public. This allocation includes professional advisory presentations, faculty tours and information sessions, conferences, briefing sessions and community events.

The library budget allocation offers the College and its membership services in the area of professional research by providing books, periodicals, research materials and reference services.

### **Business Services**

The budget allocation provides for service contracts, repairs, furniture relocation, supplies and all items associated with occupying the building premises. Also included is the cost of

College record retention and archiving activity, office equipment rentals, repairs and maintenance, and minor equipment purchases. Business Services also budgets for catering operations not chargeable to committees or program budgets, and teleconferencing costs.

### **Information Services**

This budget allocation provides for technical consulting associated with the security, efficiency and overall design of College information networks. Provision is made for Internet access, security monitoring, remote access, remote office link and business continuity and information technology staff for application development projects. Also included in the budget is software acquisition and licensing for College-wide productivity. IT also budgets for minor hardware upgrades to the computer infrastructure and maintenance of equipment. The telephone budget allocation provides for telephone line, outbound long-distance charges and cell phones.



# Human Resources

## Salary Summary

The College staffing count for 2021 remains unchanged at 180.5 FTE.

Salary Summary	2021 Budget
Total - College	\$18,001,455
Variable Incentive Expense	\$479,705
Temp Help, Short-Term Disability, Overtime, Maternity/Paternal Leave	\$363,000
Vacancy Savings	(\$200,000)
Total 2021 Compensation	\$18,644,160
Previous year budget comparator	\$18,163,166
Year-Over-Year Adjustment	\$480,994
% increase from previous year budget	2.6%

## Benefits & Pensions

College benefits are representative of widespread public sector offerings and reflect employer statutory benefit obligations. There is little variance in the year-over-year benefits as a percentage of salaries.

**\$4,442,597**

2019 Actual

**25.8%**

of salaries

**\$4,757,520**

2020 Budget

**26.2%**

of salaries

**\$4,895,718**

2021 Budget

**26.3%**

of salaries

## Professional Training and Development

The College investment in professional development is budgeted at \$334,630 which represents 1.4% of the 2021 salary and benefits budget. The allocation includes leadership development, French-language training, business application training, cross-cultural training and self-directed professional development.

# Occupancy Costs

Building - 101 Bloor Street West	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
<b>Total Occupancy Costs</b>	\$ 1,911,354	\$ 2,146,300	\$ 2,021,100	\$ 2,146,300	-

## Mortgage & Leasehold Loans

The College's mortgages renewed effective July 2020. The balances of the mortgages where renewed as follows: (1) principal: \$ 6,799,765.65 period: 120 months, rate: 3.54% (2) principal: \$, 6,799,765.65 period 60 months, rate 3.04%. The original loan amortizations where 30 years and the renewals now reflect a 20 year amortization period.

## Building Operating Costs

The building operating costs comprise a condo fee covering maintenance, cleaning, hydro, and a contribution to a building service fund to address state of good repair.

## Property Taxes

The budget allocation for property taxes applies to the 8 floors or 81,884 net rentable square feet of occupied space.

	2021 Budget
Interest - Mortgage Loan 1	\$ 198,928
Interest - Mortgage Loan 2	\$ 232,136
Operating Costs	\$ 1,554,242
Property Taxes	\$ 160,994
<b>Total Building Costs</b>	<b>\$ 2,146,300</b>

# Amortization

Amortization Costs	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
<b>Total Amortization</b>	<b>\$ 2,186,462</b>	<b>\$ 3,216,378</b>	<b>\$ 2,740,211</b>	<b>\$ 3,197,579</b>	<b>(\$ 18,799)</b>

## Capital Assets

College capital assets provide benefits derived over time. Recording capital assets allows the College to better understand the value and cost of using such assets, which enables better planning and decision-making regarding capital asset acquisition, management, and disposal. The College has an established cut-off limit for the capitalization of assets. Generally, all assets with a cost or contributed fair value greater than \$1,000 are capitalized.

Capital assets are recorded at cost on the date of acquisition. The cost of the asset includes all costs of getting the asset ready for use, including shipping and storage. The cost of any betterment to an asset is added to the cost of the asset if it increases either the service potential of the asset or its useful life.

The cost of a repair that maintains service potential and does not extend the expected useful life of an asset is not added to the cost of the asset.

The method and period of amortization matches the period of service expected to be derived from the asset. A straight-line method is applied to each asset class. The expected useful life of an asset is reviewed and adjusted as required based on changes to original assumptions. Any resulting change in rate of amortization is applied prospectively.

Asset Classes: The College has eight classes of assets with useful life estimates ranging from 3 to 30 years for amortization purposes.

Asset Type	3 Years	4 Years	10 Years	15 years	30 Years
Software	X				
Short Term IT Equipment	X				
General Equipment		X			
Long Term IT Equipment			X		
Building Improvements				X	
Building					X
Computers		X			
Furniture			X		

# Mortgage Capital Payments

Mortgage Capital Payments	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	Increase / (Decrease)
Payment	\$ 761,551	\$ 806,559	\$ 665,728	\$ 498,017	(\$308,542)

## Provides for the capital portion of the annual mortgage payments

Mortgage capital payments are separate from interest expense because they directly reduce the debt principal on the mortgage which increases members' equity in the building. Capital payments reduce the balance of the mortgage and reduce the interest expense for the fiscal period. Over time, a higher portion of the mortgage payment goes toward reducing the mortgage balance.

By owning a building, the College does not contend with the uncertainty of lease increases or the possibility of a premature move. Over time, the asset appreciates in value which compliments the objective of providing a stable financial footing for the College while maintaining fees at reasonable levels.

As of July 1, 2020, the mortgages balances outstanding were \$13,599,530.

## Ownership vs. Leasing

The net gain in revenue raised from selling the building would be a short-term gain only and would end up costing the College more money in the long run. Selling the building triggers several liabilities including a mortgage penalty, moving expenses and retrofit costs at a new facility, plus the potential loss of key staff, and a mortgage payoff. Furthermore, by renting, organizations open themselves up to a higher risk profile as they become much more susceptible to landlord discretion and higher marketplace rents.

## Ownership Costs vs. Leasing Costs

As a benchmark tenants at 101 Bloor Street West are paying \$29 per sq. ft for leased space. If the College was in the same predicament this form of office lease would have cost an additional \$228,000 to the facilities portfolio. Current market office rates vary in the range of \$25 to \$40 sq. ft. The larger challenge is the feasibility of finding adequate space in a tight rental market. As more office space is built in the GTA this scenario could change but is not likely in the foreseeable future.

## Facility Ownership Advantages

The ownership option has permitted the College to accrue more than \$6 million to date in equity in the building. This represents the dollar amount of the building we own outright. Renting over the same period would have resulted in zero equity and a weaker credit position with our banker. The ownership model gives you ultimate control over your space and ensures you are not unduly compromised by the risk associated with a landlord choosing not to renew your lease or not to permit retrofits to the space for business purposes. Although our building is older and not located in a prime commercial office space location, we do have a significant advantage of being in proximity to public transit, Queens Park, and a variety of other regulators who are all located within walking distance from our site.

# 2021 Information Technology Capital

## 2021 Capital Program

The College's investment in Information and Technology capital projects represent supplying productivity tools to Council members and staff and promoting video conferencing capabilities. The selected projects require a total investment of \$820,600.

#	DESCRIPTION	2021 BUDGET REQUEST	ROI	LEGISLATED	MANDATORY UPGRADE	HEALTH & SAFETY	OTHER
1	Annual employee computer and monitor refresh. Mandatory refresh of computers and monitors every four years. This represents 25% of all computers every year.	\$ 141,700			X		
2	Scheduled network, storage, power and security system upgrades. Manufacturer recommended end-of-life replacement of: wifi access panels, network storage, UPS batteries, and security firewall.	\$ 321,700			X		
3	Audio visual upgrade (post COVID). To enhance capability for meetings, remote attendance, video conferencing and collaboration. The upgrade of meeting room spaces as required, such as hearing rooms. The capital cost estimate needs to be determined by issuing a RFP. This is a multi-year project and could cost in the range of \$1 million.	\$ 200,000					X
4	Computer hardware refresh for members of the 9th Council (37). Mandatory refresh of Council laptops every four years. Last computer upgrade occurred over 2015-2016.	\$ 87,600			X		
5	Call center phone system replacement: replace Cisco telephone system for the Call Center with an IP based solution to enhance productivity and integration. A full costing of this project is required by issuing a RFP.	\$ 69,600					X
<b>Information Technology 2021 Capital Total</b>		<b>\$ 820,600</b>					

CAPITAL PROGRAM CATEGORY		PROGRAM CRITERIA
A	Return on Investment (ROI)	Measures the gain on a capital investment relative to the amount of money invested expressed as a percentage (%).
B	Legislated	Relates to a capital investment that is mandatory or required under law/regulation.
C	Mandatory Upgrade	Required due to a change in technology or to address workplace configuration concerns.
D	Health & Safety	Required to address workplace comfort and support, ergonomics, mobility and air quality and temperature related concerns.
E	All Other	Relates to workplace upgrades promoting collaboration and other miscellaneous one of or standalone capital requests.

# 2021 Facilities Capital

The College's 2021 investment in Facilities capital projects aim to ensure workspaces are configured for comfort, productivity, and safety. The selected projects require a total investment of \$300,000.

#	DESCRIPTION	2021 BUDGET REQUEST	ROI	LEGISLATED	MANDATORY UPGRADE	HEALTH & SAFETY	OTHER
6	Post COVID workstation reconfigurations. Modifications to workstations and office space have been implemented to help prevent the spread of COVID -19, additional measure may be required based on feedback from staff and recommendations from Public Health.	\$ 75,000				X	
7	Conversion of existing Type D workstation interiors to sit-stand solution. The number of requests to provide accommodation for special requirements is increasing. These include special height adjustable work surfaces.	\$ 200,000				X	
8	Base building capital repairs: due to wear and tear and age, a number of facility deficiencies and repairs are identified each year that require replacing or capital maintenance.	\$ 25,000				X	
<b>Facilities 2021 Capital Total</b>		<b>\$ 300,000</b>					

CAPITAL PROGRAM CATEGORY		PROGRAM CRITERIA
A	Return on Investment (ROI)	Measures the gain on a capital investment relative to the amount of money invested expressed as a percentage (%).
B	Legislated	Relates to a capital investment that is mandatory or required under law/regulation.
C	Mandatory Upgrade	Required due to a change in technology or to address workplace configuration concerns.
D	Health & Safety	Required to address workplace comfort and support, ergonomics, mobility and air quality and temperature related concerns.
E	All Other	Relates to workplace upgrades promoting collaboration and other miscellaneous one of or standalone capital requests.



# Financial Risk Scenarios

RISK	RESPONSE
<p>The risks related to the uncertainty surrounding case volume and program parameters for cases involving victims of abuse is ongoing.</p>	<p>The financial impacts continue to be funded from internal existing program budgets. The College continues to work with the province to delineate program criteria and impacts.</p>
<p>The risks associated with the COVID - 19 world wide pandemic impacting business continuity, staff and client safety, and the College's financial viability.</p>	<p>The College is closely monitoring federal, provincial, and municipal responses and legislative requirements. A College action plan has been formulated addressing workplace health &amp; safety, productivity, and operational and financial requirements.</p>
<p>The risks related to an IT system catastrophic failure or breach.</p>	<p>The College's critical data is backed up off premises and a disaster recovery protocol exists.</p>
<p>The risk associated with property loss or damage.</p>	<p>The College insures against property loss or damage for full replacement value.</p>
<p>The risk associated with legal action taken against the College's Directors, Officers and Council members.</p>	<p>Directors, Officers, and Council members can access general liability coverage up to \$5 million during a policy year. An excess limit up to \$1 million per year is available to Council members above and beyond our regular coverage.</p>
<p>The risk associated with short-term cash flow requirements and program funding fluctuations.</p>	<p>The College holds financial reserves to supplement funding shortfalls as outlined in the reserve fund policy.</p>



**Ontario  
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Committee Inquiries	Operational Items for Finance Committee	Strategic Items of Record
<i>Text added for further clarification</i>		
Corporate and Council Services Department (CCS):		
<p>Q: Clarification requested re no. of FTEs on page 2 and 3 – should it be 57 or 59?</p> <p>A: It should be 57; 2 are contract staff which are not part of FTE no. (2 people are contractors and paid for out of operating line and not part of FTE); <i>The approved department FTE Count is 57. At the time of the presentation to the Finance Committee, two FTE had been transferred temporarily to CCS from SPA, thus bringing the total complete temporarily to 59. One of those FTE has since been transferred back to SPA. The second remains assigned to the Administration unit of CCS on a temporary basis bringing the current department complement to 58.</i></p>	x	
<p>Q: For clarification, amounts are for operating budgets and do not include the salaries?</p> <p>A: Correct.</p>	x	
<p>Q: Is there a projected increase for IT given current reality?</p> <p>A: No, IT staying where it is and have an allocation for operating budget line for hiring contract staff as projects and needs arise.</p>	x	
<p>Q: Is there someone on IT that can support re Council member tech training as it is a lot for one person to take on? Is there consideration for that?</p> <p>A: Staff in IT provide tech. support and not software training; applications have not changed for Council members (i.e. GTM, eScribe), so staff is responding to specific issues around increased utilization;</p>	x	
<p>Q: Any thought in trying to do business virtually so members, staff and public do not have to travel to attend?</p> <p>A: Yes, for example, the Professional Advisory rollout; audio recording of all of our advisories, video products to enhance presentations;</p>		x
<p>Q: How are you going to meet objective of downsizing physical footprint?</p> <p>A: We will continue to observe what's going on in marketplace, re COVID and vaccines; there will be a cohort of individuals who will continue to telecommute;</p> <p>We will have to make some modifications to some workstations; vast majority of workstations meet requirements and we will work with other workstations to create the space; there will be installation of acrylic panels in high traffic areas; we can't move on permanent solutions immediately as require costing, etc.; will come up with a temporary solution that will meet our needs for next several months;</p>		x
<p>Q: Re Smart Objectives: Why are two focused on finances and not strategic priorities (ex marketing of facility)? How are these objectives meeting strategic priorities when they are not focused on money?</p> <p>A: We want to ensure that we are meeting strategic priorities but mindful that there is a limit of what members are willing to absorb as an org.; ensuring that we have a very robust infrastructure re IT; will be reflected in the way that we save on staffing resources and future reduction on fee increases;</p>	x	
<p>Q: What is the plan to measure regulatory risk and improving relevancy to the public?</p>		x

Committee Inquiries	Operational Items for Finance Committee	Strategic Items of Record
<p style="text-align: right;"><i>Text added for further clarification</i></p> <p>A: Bringing a paper to SLT in the coming months re development of strategies to measure risk and then will have analysis of data re volume of work that we are producing and the efficiency by which we are producing it;</p> <p>The commonality re data being generated around complaints that are coming into the org., effectiveness of the turnaround times, ability to address an applicant’s certification, public complaints to resolution; processes should be tracked as an org. from a risk perspective; With respect to engagement, in terms of public and member engagement – continue to enhance our presence re tracking of newsletters that we send out electronically; we actually measure and can tell what members are reading; utilizing technology to push data out on a day to day basis; work in focus groups to identify strategies re advisories and magazine content;</p>		
<p>Q: Re assessments and stats, is anyone internally able to run Google stats?</p> <p>A: Yes, there is someone in IT who analyzes info. as people navigate through website and reports out re traffic, what they are searching for, etc.</p>	<b>x</b>	
<p>Q: Re magazine in mail or electronically – is this one of the incentives going forward re going electronically if that’s what members want?</p> <p>A: We are making it available to members and they can self-select what they want; we will continue to invest in data collection; it is on our radar and will continue to test it and respond to that data; <i>The cost to publish the magazine in 2019 was \$1,668,701.71. Revenue from advertising sales totaled \$786,922.98. The net cost to the College was \$881,778.73. Based on a membership 2019 membership of 233, 346, the cost per member for four issues of Professionally Speaking in either English or French is \$3.78. The College is in the process of conducting a bi-annual survey of members to solicit feedback on the publication including the preferred format for receiving the information contained in the statutory required publication.</i></p>	<b>x</b>	
<p>Q: Are we going to have any messaging re legislation that is in flux re election?</p> <p>A: Yes, have to be clear in articulating it but not to desensitize individuals re election but want to ensure that the leg. and reg. can change;</p>	<b>x</b>	
<p>Q: Is the Ministry aware of the timelines of August in regards to the election?</p> <p>A: Every Ministry meeting we have, we put this item on the agenda and talk about the consequences; they appreciate the situation that we are in and say they will take it back; the Deputy Registrar and Nicole had a teleconference with the Deputy Minister and confirm that she heard the timelines;</p>		<b>x</b>
<p>Q: The amount re the Professional Advisory has almost tripled at \$173,000 when we were doing it for \$55,000; huge amount of money for a PA. Any way that we could do internally for less money?</p> <p>A: The 2021 numbers are in range of \$100,000; there are a no. of costs that were not reflected in earlier numbers that would be normally part of in house costs – ex research, writing, photography, media distribution, etc.; <i>Funding for the professional advisory rollouts in 2017 and 2019 were as follows:</i></p>	<b>x</b>	

# Committee Inquiries

*Text added for further clarification*

Operational  
Items for  
Finance  
Committee

Strategic  
Items of  
Record

Column1	2017	2019	2020 (estimated)
Photography	\$339.00	\$3,579.70	\$3,500.00
Travel & Hospitality	\$42,029.08	\$35,207.67	\$20,000.00
Room Rentals	\$6,703.72	\$7,847.29	\$6,000.00
Catering	\$2,138.43	\$3,248.28	
AV Rentals (Translation booths, LCD projectors etc)	\$32,995.50	\$14,922.20	\$15,000.00
Release Time	\$3,285.82	\$803.10	\$1,000.00
Interpretation Costs	\$13,140.49	\$7,331.68	\$7,500.00
Expert Resource	N/A	\$31,403.05	
Miscellaneous	\$4,746.00	\$635.24	\$1,000.00
Products to support member engagement			\$50,000.00
<b>Totals</b>	<b>\$105,378.04</b>	<b>\$104,978.21</b>	<b>\$104,000.00</b>

Q: Where was it accounted for in the previous budgets (re \$35,000)?

A: In magazine;

**x**

Q: Would you see the reduction in the magazine?

A: It wouldn't be a reduction in the cost of the magazine; in previous iteration of the advisory, it was printed as part of the mag. adding extra pages to the publication; last year, it was polybagged (can be because size of publication changes from issue to issue) so separate and distinct which added a cost to the publication; variety of factors throughout the year that affect the decision (ex advertising sales).

**x**

Q: Re therapy and counselling, concern that left at 50,000 for 2021 (based on 5 eligible claimants for 2021); Why not consider doubling considering the timelines?

A: There was a soft launch and not actively promoting the resources so not anticipating much in the way of action; for an act to occur and proceeding activity and rollout, would be a considerable amount of time with the consideration of making an application so benefitting from the timing;

**x**

Q: re Capital budget for facilities – on page 28 addition of 2021 not correct;

A: We will correct the addition error (should be \$1,120,600).

**x**

Committee Inquiries	Operational Items for Finance Committee	Strategic Items of Record
<p style="text-align: right;"><i>Text added for further clarification</i></p> Q: Info. technology is over double and budget is very significant; A: Cyclical renewal of technology is taking place and new elements associated with working remotely/telecommuting; providing new tech in meeting room facilities, new Council refresh every 4 years but larger impact in this one year;	x	
Q: Are there no other places that money can be found? A: No, savings of capital 2021 spend was absorbed in 2020 budget (ex. communications saving - reduction of \$400,000 in 2020); <i>In 2020, the College replaced the annual membership renewal mailing with a downloadable smartphone app. The change generated savings of \$400,000 in the 2020 fiscal year and is reflected on the Communications line on page 23 of the 2020 Approved Budget Highlights.</i>	x	
Q: Give outline of the salary program and we request for future budgets that these be itemized in those three aspects; A: Cost of living – CPI from Oct 2019 to Sept. 2020 and average out (estimate around 1.2 percent for 12-month period but prorating as everyone at different anniversary date so average of 0.8); 0.7 range movement 10 steps, 0.1 bonus component; Total adjustment based on total projections is total salary adjustment of 1.7 percent	x	
Q: Where is the no. for the entire CCS dept.? A: Includes operating costs (8.3 for dept.), capital (revised amount) and HR costs;	x	
Standards of Practice and Accreditation Department (SPA):		
Q: Re Vacant Accreditation Manager and Bilingual Program Officer positions, are they positions in FTE amounts and not new positions? A: Yes, they were people that were working in Accred. Dept and then reallocated to different depts. where there was a need; it was not supposed to be a long term solution.	x	
Q: How many years have you been asking for that manager’s position to be returned? A: Not less than 3 years;	x	
Q: Do we see any influence or any positivity or significance to revenue line now that the Council approved the collection of fees for accreditation? A: No chance to get any results of that yet; almost recovery based as fluctuates from one faculty to the next; we do keep track of it as some accreditations cost more.	x	
Q: Does that money that is recovered go back to revenue and not back to Accred. Dept.? A: Those revenues are tracked uniquely, and we will see what the impact will be once we get a bit more activity;	x	
Q: Re the request for the FTEs, are they reflected in the budget that you presented? A: No, presented was our operational budget; staffing budget comes out of HR budget.	x	
Q: The two do not increase the 180.5 FTEs for org.? A: Correct as redeployed positions within the org; those have been filled by other incumbents within org;	x	
Investigations & Hearings Department (I&H):		
Q: Increased no. of FTEs for I&H for 2019 budget but no increase in the no. of cases, why is that?	x	

Committee Inquiries	Operational Items for Finance Committee	Strategic Items of Record
<p>A: Early 2020 had a couple of pressure points; from January to March it's extremely busy – more matters and more hearings means more support, some uncertainty on how we utilize them right now;</p>		
<p>Q: Re remote meetings for Investigations re COVID - will that be considered going forward including doing pre-hearings that way for cost s</p> <p>A: A lot of panel work done that way in April and May and has been effective and more flexible; it is something that we could explore; Positive feedback so makes sense moving forward; will have to compare the costs to see what the numbers are. Much of the work is done electronically (i.e. material preparation) so question is the in-person attendance and, so far, functioning quite well.</p>	x	
<p>Q: For transparency, would money solve all the issues or is it a facility problem as well? So rather than flat lining budget and having an increase, would that help?</p> <p>A: Challenge is it's a complex analysis; with current composition of panels, can only move what the committee can support; hoping that with the resources that have been provided, will help move matters effectively and efficiently; if committee decides that they will increase the budget, will probably have to look at staffing in the future if go electronically (ex might need certain staff members or positions that have dual clerking, media, or technology considerations) but still too early in the process;</p>	x	
<p>Q: If it has to do with the no. of bodies that run the hearings, what is the size of roster to be able to extend the no. of matters that we are able to hear?</p> <p>A: We have a sufficient no. of rosters; until able to establish panels, need to have enough elected and appointed along with appropriate language component; so more of a committee capacity piece; looking at least 2021 if any gov't governance announcement is made; we appreciate the consideration and know that before we come to the committee, we always look at internal efficiencies.</p>	x	
<p>Q: Is there an opportunity to do a catch up of hearings in July and August (when panel members might have more time)?</p> <p>A: Last year there was little uptake in that regard; some committee members not available during the summer, but we have always been open to that.</p>	x	
<p>Q: Has there been consideration in the format to ensure that there are more members on the Disc., FTP and Investigations as they will be sitting on one committee only and with a change maybe there's more availability to do more panels?</p> <p>A: Adjudicative panels should fall to rosters, but it is on the government radar that current composition won't work. We ask that the government connect with us to ensure that it meets our needs.</p>	x	
<b>Membership Services Department (MS):</b>		
<p>Q: Re additional budget requirement slide, if we're moving towards remote with technology, are we waiting to see what next few years will broach instead of it being an immediacy? By investing in this, no matter what our future may look like, gives an avenue to give support to staff to wherever the urgency may arise.</p> <p>A: Yes; digitized system of the library is more of an immediacy;</p>	x	
<p>Q: Do you have an estimated cost of what the digitization would be (of the library)</p> <p>A: Estimate of approx. \$3,000</p>	x	

Committee Inquiries	Operational Items for Finance Committee	Strategic Items of Record
<p style="text-align: right;"><i>Text added for further clarification</i></p> <p>Q: Other estimates for other asks?  A: The temp staff allows us to be nimble, so \$31,000 to have 2 extra staff from Jan. to April; desk enhancement – for each workstation approx. \$1,000, so \$13,000 if for everyone but if people working half time in office, then amount would change; laptops at \$2,000 each and Smartboard is \$7,500; hasn't gone through the College process yet so have to look at all the needs; the top of wish list is the digitization of the library and temp staff; <i>The digitization of Evaluation Library Resources is incorporated in the IT operating budget. The \$31k for temporary staffing is included within the annual temporary staffing budget for 2021.</i></p>	<b>x</b>	
<p>Q: Would temp. staff be on contract and not added to overall salary figures?  A: Correct.</p>	<b>x</b>	



# A Guide to Financial Statements of Not-For-Profit Organizations

**QUESTIONS FOR DIRECTORS TO ASK**



# A Guide to Financial Statements of Not-For-Profit Organizations

## QUESTIONS FOR DIRECTORS TO ASK

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## Preface

The Risk Oversight and Governance Board of the Canadian Institute of Chartered Accountants has developed this Guide to help directors of not-for-profit organizations (NPOs) to understand the financial statements of the organization they serve. Although boards may delegate the detailed aspects of financial oversight to a board committee, all directors have a personal responsibility for ensuring they understand the financial information provided to them and the financial implications of their decisions and actions. Directors are expected to probe and question until they are satisfied with their organization's financial information and the direction in which the organization is moving. An understanding of financial statements is a prerequisite for effective oversight of the financial affairs of the organization.

Financial statements in the NPO sector can involve accounting methodologies not found in the for-profit sector. NPOs are very diverse and range from small all-volunteer groups to large highly sophisticated enterprises. Some, but not all, have charitable status. This document is directed to NPOs that are of a sufficient size to require a management team and engage the services of an external auditor. The sample financial statements in the Guide assume charitable status for the organization; however, the Guide is still of considerable value to directors of NPOs without charitable status.

The Guide will assist NPO directors to understand:

- The role and responsibilities of the board, management and the auditor in financial reporting;
- The concepts and terminology of financial reporting in the NPO sector;
- The ways in which contributions (i.e., donations) to the organization can be accounted for; and
- The various financial statements they will encounter in their role as an NPO director.

Directors of government-sponsored NPOs and NPOs that operate “social enterprises” may find this guide helpful; however, they face particular financial reporting issues that are not covered in this briefing.

Throughout the Guide, there are sections entitled “Items for directors to watch for and questions to ask”. These sections are intended to assist directors to undertake their governance oversight role in an effective manner. Directors are encouraged to frame additional questions in the particular circumstances they face.

The Risk Oversight and Governance Board acknowledges and thanks the members of the Not-for-Profit Organizations Committee and the Directors Advisory Group for their invaluable advice and the CICA staff who provided support to the project. A special thank you is extended to William G. Wolfson and William Harper for writing this briefing.

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Chair, Risk Oversight and Governance Board

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## Introduction

### The Importance of the Sector and the Role of Directors in Oversight of Financial Affairs

It is estimated that 12.5 million Canadians volunteer with not-for-profit organizations (NPOs). Many of these volunteers serve as members of their organization's board of directors.<sup>1</sup> NPO boards are responsible for overseeing the affairs of organizations that constitute about 7 percent of Canada's GDP, generate annual revenues of approximately \$80 billion and provide 2 million full-time jobs for Canadians.<sup>2</sup> Being a director in the NPO sector is a vitally important role.

Board members in the NPO sector have a wide variety of skills and interests. Some may feel uncomfortable reviewing financial information and may be poorly equipped to provide the required oversight of the financial affairs of the organizations which they have been elected to govern. This gap presents a threat to the sustainability of the organization. It may also expose individual board members themselves to legal liability. The bottom line is that overseeing the financial affairs of NPOs is a key responsibility of the board, and of every member of the board.

Directors have a "fiduciary duty" to their not-for-profit organization to act honestly and in good faith in the best interests of the organization. This responsibility is sometimes referred to as the "duty of loyalty", but it is much broader than just loyalty. It speaks to concepts such as the duty of confidentiality and not participating in decisions in which the director may have a personal interest. Directors also have a "duty of care" that requires them to act with the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. This obligation means that directors must diligently apply their skill, expertise, education and intelligence to the job of being a director to make reasonable business decisions.

Directors have fiduciary responsibilities to take steps to ensure that funds are spent in accordance with donors' or funders' criteria, that statutory obligations are fulfilled, such as payroll deductions being remitted to the Canada Revenue Agency, and that internal controls are in place to avoid the occurrence of fraudulent transactions within the organization. A proper understanding of the financial statements and information provided to the directors assists the directors in fulfilling these responsibilities.

A board can delegate the work to prepare financial information, but the board as a whole is ultimately responsible for financial reporting. Indeed, one of the fundamental roles of the board of directors is stewardship of the organization's resources. This duty includes the responsibility to protect the organization's assets and to oversee its financial affairs. Financial statements are the primary means of communicating information about the organization's financial position (at a point in time) and financial results of its operations (over a period of time).

Though financial information is not the only information required to develop an understanding of the organization, it is a key component. Financial information is typically measurable, objective, comparable over time, sometimes comparable across organizations, and can provide an indicator of organizational health. Board members require the ability to understand various financial statements in order to discharge their stewardship responsibility to the organization.

Each board member does not need to have financial expertise, or to be a financial expert, but all directors should develop a basic level of financial literacy. This Guide for NPO Directors aims to provide a practical tool to help board members understand financial concepts and com-

<sup>1</sup> Statistics Canada, *Survey of Giving, Volunteering and Participating*, 2007

<sup>2</sup> Statistics Canada, *Satellite Account of Nonprofit Institutions and Volunteering*, 2007



prehend financial statements. Most importantly, this Guide will help directors focus on certain elements in the financial statements and understand how they can use that information to critically assess and oversee their organization's financial affairs.

## Some Common Barriers Impeding Full Board Participation in Financial Oversight

### We have an experienced accountant on our board—why should I have to deal with this?

Financial experts such as accountants bring a valuable skill set to the board table, along with their field experience and their professional mindset. They are in a strong position to help their board peers deepen their understanding of financial matters. Organizations with a financial professional on the board are fortunate and should use that person as a resource. Further, that director should expect to play a key role in the oversight of financial affairs, perhaps by becoming a member of the audit or finance committee of the board. (In some NPO organizations, the functions of these two committees are combined into one board committee.) However, as noted above in the “duty of loyalty”, board members cannot abdicate their responsibility or transfer it to another board member. Each and every board member must fulfill his/her obligations for the oversight of financial matters to the best of his/her ability.

### Shouldn't the board be focusing on our organization's mission?

The ultimate goal of every not-for-profit organization, and hence every organization's board, is the achievement of its mission. Consequently, a significant portion of the board's time and energy needs to be focused on the organization's mission and progress in achieving it. However, the organization must protect its assets, pay its bills, compensate its employees, receive and manage donations, and undertake a host of other financial activities. Doing so in an efficient and effective manner is critical to achieving its mission. An organization that is not financially secure cannot focus on achieving its mission, as efforts of the board and management are directed to financial survival.

### Accounting is just too complex for me!

Accounting is indeed a complex subject. There are various financial concepts and accounting principles. However, all board members do not need to be accounting experts. Directors should strive to acquire a basic understanding of financial matters, and a basic ability to read, assess and question financial statements and other financial information. Turning to experts for assistance and advice is entirely appropriate, but making final decisions within the context of the organization's total financial picture is the responsibility of every member of the board.

### Isn't this the job of the auditor<sup>3</sup> or of management?

The auditor and management both have important and distinct roles to play in ensuring fair and complete financial reporting for the organization. So does the board of directors. Management is responsible for selecting the organization's accounting policies and preparing, presenting and acting on financial information. The board is responsible for overseeing management and the processes for preparing financial information, and for satisfying itself that the resulting informa-

<sup>3</sup> Depending on the legislation governing an NPO in the jurisdiction where it is incorporated, the organization may have options regarding the engagement of an auditor. These options are beyond the scope of this Guide.



tion reasonably reflects the organization's reality. The auditor, on the other hand, is responsible for providing an independent professional opinion on the fair presentation of the organization's financial position and its financial results. These three parties to financial reporting are interdependent: each relies on the other, but each has its own role and responsibilities.

### Outline of this Guide

This Guide is designed to help directors of not-for-profit organizations to fulfill their fiduciary duties. Many NPOs have charitable status which brings additional reporting obligations and oversight duties for directors.

The Guide outlines the process of financial reporting and the various roles and responsibilities within an NPO for financial reporting. It describes the concepts and terminology used in financial reporting, providing both definitions and examples. With that foundation in place, the Guide describes two key financial reports that directors will encounter most frequently:

- Statement of Financial Position (sometimes called the "Balance Sheet"); and
- Statement of Operations (sometimes called the "Income Statement" or the "Income and Expenditure Statement").

This Guide will use the terminology of Statement of Financial Position and Statement of Operations; NPOs are free to use other designations. Appendix 1 and Appendix 2 provide descriptions and analysis of other financial concepts and statements that NPO directors may encounter, depending on the operations of their organization.

There is particular emphasis in the Guide on questions directors might consider asking about various financial processes and statements that they will encounter in their oversight role.

## The Process of Financial Reporting

Financial reporting must serve both the interests of internal users and the interests of external stakeholders.

### Internal Financial Reporting

Internally, staff members of the organization are both creators and users of financial reports. Finance staff collect the appropriate data, manage the associated information systems and create financial reports. Managers responsible for financial integrity, risk, quality, program delivery and other key internal responsibilities use these reports in fulfilling their job responsibilities. Certain financial reports are submitted to the board and/or board committees.

Financial reporting to the board of an NPO tends to follow a natural cycle:

- the budget for the coming year (prepared by management, usually influenced by, but not identical to, management's year-end estimates from the preceding year and other information);
- the audited financial statements for the previous year (issued usually in the first or second quarter of the next fiscal year, upon completion of the external auditor's work on the NPO's financial statements);
- internal in-year financial statements to report on actual results compared to the budget, often including projected results to year-end (prepared by management).



Directors can expect to review each of these types of financial reports at various points in time. The dates in the “calendar year” depend on the NPO’s fiscal year-end. The fiscal year is the 12 month period used for calculating the figures in an annual financial statement. The fiscal year may not coincide with the calendar year. For those organizations with a December 31 year-end, directors can expect the following:

- Budget review in the fall;
- Draft audited financial statements in the spring; and
- Internal in-year financial reports at least every quarter (and in some organizations, every month or bi-monthly).

## External Reporting to Stakeholders

Not-for-profit organizations have many stakeholders and each one has an interest in the financial affairs of the organization. All stakeholders have a common interest in areas such as:

- the protection of the assets entrusted to the organization; and
- the efficient and effective use of the organization’s resources in furtherance of its purpose.

Some stakeholders have quite specific interests. For example:

- Funders (e.g., governments or foundations) want assurances that their contributions to the organization have been used in accordance with the funding submission and subsequent approval;
- Donors (particularly major donors) want assurances that their contributions have been applied according to their wishes;
- Members have an interest in how their fees have been deployed and more generally in how the organization is performing; and
- The Canada Revenue Agency (CRA) requires all NPOs to submit an annual filing that includes financial information.<sup>4</sup>

The organization, through its management, has a reporting duty to all of these stakeholders. Financial statements and other financial reports are communication tools that the organization uses to meet the information needs of its stakeholders.

Common information requirements are usually met through the issuance of general purpose audited annual financial statements, supported by the organization’s annual report. These are good tools for communicating to a variety of audiences about the organization’s financial affairs. However, they may not answer all the questions of certain stakeholders. Special purpose reports are used to supplement audited financial statements to answer these additional questions. For example, many funders require reporting about the use of “their” funds, in specific formats, as a condition of granting the funding to the organization.

## The Roles and Responsibilities Associated with Financial Reporting

### A Three-Way Arrangement

Responsibility for an organization’s financial reporting is shared among three parties—management, the board and the external auditor—as follows:

- Management, which is responsible for preparing financial reports;

<sup>4</sup> NPOs without charitable status submit a T2 Corporate Tax Return if they are incorporated; in addition, NPOs that have assets over \$200,000 or receive certain investment income over \$10,000 also file Form T1044. Charitable NPOs file Form T3010. The financial information submitted by charities is made available to the public on CRA’s website.

- The board, which is responsible for overseeing management and its financial reporting processes and satisfying itself as to the appropriateness of financial reports for those outside the organization; and
- The auditor, who is responsible for making an independent assessment of the financial statements, and giving a professional opinion on whether they give a fair presentation of the organization's financial position and results of operations.<sup>5</sup>

Each party relies on the work of the other two in discharging its own responsibilities. Each one brings a unique perspective to the preparation of financial reports:

- Management has an intimate understanding of the organization's activities and plans; management also exercises judgment on how certain items are accounted for in the financial reports;
- The board offers a high-level, strategic view of the organization, coupled with due diligence duties with respect to internal policies, procedures and processes, and an accountability to external stakeholders; and
- The auditor brings a different level of financial expertise that may not exist within the organization; more importantly, the auditor brings an outside, independent perspective on the organization's financial affairs.

Management is responsible for preparing financial reports. The perspectives provided by the auditor and the board could not exist without management first preparing the reports for these two other parties to consider.

Management is also responsible for developing internal financial controls. Robust internal controls are essential to the integrity of financial reporting. The board has an obligation to pay close attention to the details of management's approach to internal controls and to satisfy itself that all appropriate areas have been covered to minimize the risk of financial mismanagement or fraud.

In the process of performing the independent external audit, the auditor will expect management to sign a "representation letter". This letter confirms, among other things, that the financial information provided to the auditor is, to the best knowledge of the signatories, complete and that there has been full disclosure of all material financial matters.

### The Relationship between the Board and the Auditor

A significant underpinning of external financial reporting is that the information be credible. Users must have a strong level of assurance that financial information is a fair presentation of the organization's affairs. The annual audited financial statements provide a key measure of accountability and control for not-for-profit organizations. The auditor, with a mandate to directly inspect the books and records of the organization, provides an important check on the presentation of financial information by management.

The choice of the auditor and the reporting relationship for the auditor are therefore key considerations. The board selects the auditor and recommends the appointment of the auditor for approval of the organization's members at the Annual General Meeting. Governance best practices for not-for-profit organizations dictate that the auditor reports directly to a committee

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<sup>5</sup> The auditor examines the general purpose financial statements of a not-for-profit organization prepared in accordance with Generally Accepted Accounting Principles (GAAP) as issued by the Canadian Institute of Chartered Accountants (CICA). Under GAAP, the CICA gives NPOs the choice of applying International Financial Reporting Standards (IFRS) or Accounting Standards for Not-for-Profit Organizations (ASNPO). As most NPOs report using ASNPO, this Guide is based on that accounting framework. Some NPOs are not required to engage the services of an auditor; nevertheless, this Guide will still be helpful to directors of those organizations.



of the board (in some organizations, directly to the board). The auditor is also expected as a matter of best practices to meet *in camera* with the board committee (or the board as a whole), without management present.

## The Concepts and Terminology of Financial Reporting

This section introduces some of the key concepts and terminology used in accounting. Understanding these concepts and terms is the foundation necessary for directors to understand financial reports.

### The Time Frame

The first thing to keep in mind is the difference between figures presented “at a point in time” and figures presented as “cumulative sums over time”.

- Some financial figures are calculated at *a point in time*; in other words, as of a particular reporting date. For example, the accounts payable figure is the total dollar amount owed by the organization to suppliers at the specified date. Another example is the amount of cash in the organization’s bank account at the specified reporting date.
- Other financial figures are calculated as *cumulative sums over time*; in other words, the total financial value of an activity during a fixed period of time, such as a full year or a quarter of a year, ending at the reporting date. For example, the donations figure is the sum of all donations made to the organization over the specified period. Another example is salaries and benefits paid in the period.

There is a relationship between the two concepts. The “point in time” figures are the net result of all the transactions over time. As a simple example, the current cash balance (a “point in time” figure) is the result of all transactions that contributed cash minus all transactions that used cash (these latter two are “cumulative sums over time”).

### Assets, Liabilities and Net Assets

Assets, liabilities and net assets are all “point in time” financial figures.

- *Assets* are things owned by the NPO or owed to the NPO. Examples of owned items are cash, short or long term investments, buildings, furniture and vehicles. Owed assets are typically accounts receivable, where money is to be received in the future. An example is program fees that have been committed, but not yet received. Prepaid expenses where the NPO will receive services in the future for amounts already paid are also shown as assets.
- *Liabilities* are amounts that the NPO owes to others, commonly called accounts payable, where money will be paid out in the future. Examples are the amount owing for office supplies and the amount withheld from employees’ pay cheques to be remitted to the government, but not yet paid. Other liabilities include debt obligations such as bank loans and mortgages.
- *Net Assets* are the difference between what is owned by the organization and what is owed by it. In equation form:  $Net\ Assets = Assets - Liabilities$ . Net Assets can be thought of as the amount that is available for the organization to use in the future to continue to operate and achieve its goals.<sup>6</sup>

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6 The *net asset* figure could be negative, reflecting a deficiency of assets should liabilities exceed assets.

There are various categories within assets and liabilities and also certain financial figures derived from them that are of interest:

- *Current assets* are those assets that are in the form of cash, or expected to become cash (or be used in operations) within the coming year. Examples are bank balances, short-term guaranteed investments, accounts receivable and prepaid expenses.
- *Long-term assets* (perhaps described as “capital assets” or “other assets”) are not expected to be converted to cash within a year. Examples are buildings, furniture, equipment and vehicles, all of which are expected to serve the needs of the organization over a number of years. Also included in this category are long-term financial assets that are being held to generate a return on investment over time.
- *Current liabilities* are those that have to be paid within the coming year. The items cited above—payables due to suppliers and mandated amounts withheld from employees’ salaries—are current liabilities as they are typically due to be paid within a year.
- *Long-term liabilities* are obligations to make payments in the future, beyond one year. Examples are loans outstanding and mortgage balances. However, mortgage or loan obligations that are to be paid within the coming year are shown as a current liability.
- *Working capital* is the difference between current assets and current liabilities. In equation form:  $Working\ Capital = Current\ Assets - Current\ Liabilities$ . Working capital is usually a positive number. On that basis, it can be thought of as a short-term “cushion” available to the organization in the coming year, reflecting the excess of current assets over what is required to meet current liabilities. Put another way, a positive working capital balance is evidence of the organization’s ability to pay its bills as they come due.
- The *working capital ratio* is another way of assessing the organization’s ability to pay its bills as they come due. Rather than calculating the dollar value of working capital, the ratio describes how many dollars of current assets are on hand for each dollar of current liabilities. In equation form:  $Working\ Capital\ Ratio = Current\ Assets / Current\ Liabilities$ . A ratio value greater than 1 signals the capacity in the short run to pay all current liabilities from current asset sources.

## Revenues and Expenditures

Revenues and expenditures are “cumulative sums over time”. They reflect the aggregation of many transactions that have occurred during the specified period.

- *Revenues* are the amounts recorded by the organization associated with increases in economic resources related to its operating activities. Examples are grants from governments (or foundations) and contributions (donations).<sup>7</sup> Some NPOs operate fee-for-service programs which generate revenues; other organizations may charge membership fees.<sup>8</sup> Organizations with significant investment funds may earn returns on these investments, which would be included in revenues.
- *Expenditures* (or expenses) are the amounts spent by the NPO in its operating activities. Examples are salaries, rent and office supplies. Also included in expenditures is “depreciation” of capital assets (usually called “amortization of capital assets”) as the cost of capital assets is usually spread over a number of periods, based on the useful life of each asset.
- *Net Revenues* (or “Excess of Revenues over Expenditures”) is the difference between total revenues and total expenditures. In equation form:  $Net\ Revenues = Total\ Revenues - Total\ Expenditures$ . A positive number reflects an operating surplus, whereas a negative number means an operating deficit, described as a “Deficiency of Revenues over Expenditures”.

<sup>7</sup> See the section below on “Contributions as a Special Type of Revenue”.

<sup>8</sup> If the NPO is sponsoring a “social enterprise”, the sales of the enterprise could be included as revenues, with the expenses included in expenditures.



## Accrual Accounting vs. Cash Accounting

An important consideration in measuring and recording revenues and expenses, as well as assets and liabilities, is when to record a transaction. Transactions need not involve cash. In those circumstances, the accounting question is when to record the event in the books of the organization (and thereby in the financial reports).

- *Accrual accounting* records transactions when they occur, regardless of when money actually changes hands between the organization and third parties. Examples are a fee-for-service delivered and invoiced but payment has not yet been received by the NPO (this would be included in revenues and accounts receivable) or a purchase of office supplies using a credit card where payment has not yet been made (this would appear as an expenditure and account payable).
- *Cash accounting* records transactions only when there is an exchange of cash. Under this system, the sample transactions above would not be recorded until the fee-for-service was received (an increase in revenues) and until the NPO paid its credit card bill (an increase in expenditures).

Accrual accounting provides a more accurate record of financial activities because it records the economic substance of transactions, whether or not cash has been received or paid. Under GAAP, CICA recommends that NPOs use the accrual method.

## Contributions as a Special Type of Revenue

NPO organizations often receive donations from their supporters. For some NPOs, particularly charitable organizations, the amounts can be significant. The accounting term for donations is *contributions*.

Contributions are a type of revenue unique to not-for-profit organizations. The main characteristic of a contribution that sets it apart from other types of revenue is that it is a non-reciprocal transfer. In other words, the contributor does not receive anything in exchange for the contribution. Government funding to an NPO is considered to be a contribution. Some NPOs choose to show government funding separately from other contributions.

A not-for-profit organization typically has multiple goals, and its supporters may choose to support one or another of these goals, or place some other restriction on the use of the contributions they provide. For example, a restriction might be to use the contribution only for one particular program, or to purchase a capital asset, or it may be that the contribution is not to be used at all, but rather invested as an endowment with the income from the invested funds to be used for a particular program. Accepting such restricted contributions places an obligation on the organization to respect those restrictions, and to use those monies only in accordance with donors' wishes.

Accordingly, there are three types of contributions:

1. A *restricted contribution* is a contribution subject to externally imposed stipulations as specified by the donor.
2. An *endowment contribution* is a type of restricted contribution specifying that the resources contributed be maintained permanently.
3. An *unrestricted contribution* has no externally imposed conditions and the NPO is free to use the funds in any manner it chooses. (It is neither a restricted contribution nor an endowment contribution.)

## Accounting for Contributions

NPOs are required to distinguish between contributions and other revenues, and report on contributions in their financial statements. As each type of contribution has different associated stipulations as to its use, each one needs to be tracked separately and reported on separately.

There are two methods of accounting for contributions:

1. The *Deferral Method*; and
2. The *Restricted Fund Method*.

An NPO typically makes a choice of revenue recognition policy early in its existence, when contributions are first received. Altering the method after that is a significant accounting change which would need to be disclosed in the audited financial statements as a change in accounting policy.

Under the Deferral Method, the accounting treatment differs depending on the type of contribution and its purpose:

- A restricted contribution that is directed to expenditures in the current period is included in revenues of the current period.
- An externally restricted contribution for future expenditures is called a *Deferred Contribution*. When deferred contributions are utilized for operating expenses in a future period (expended as specified by the donor), the term used at that time is *Recognition of Deferred Contributions* and the amount is shown as a revenue item in that period.
- If the restricted contribution is for the purchase of a capital asset, the contribution is deferred and taken into revenues as the asset so acquired is amortized (i.e., depreciated) in the NPO's accounts. The term used in this case is *Amortization of Deferred Contributions*.
- An endowment contribution, which is essentially an asset contribution to be held in perpetuity, is recorded as an increase in a category of net assets called *Net Assets Restricted for Endowments*.
- An unrestricted contribution is taken into revenues immediately and forms part of the *Unrestricted Net Assets* balance if not expended in the current period.
- Finally, the board of directors can decide to designate a portion of the organization's unrestricted net assets for certain purposes (e.g., research, special projects), in which case it is noted as *Internally Restricted Net Assets*.

Under the Restricted Fund Method, the organization would report a *general fund* (sometimes called an *operating fund*) and at least one *restricted fund*, and, if it receives endowment contributions, an *endowment fund*. Once again, the accounting treatments differ depending on the type of contribution and its purpose:

- An endowment contribution is reported as revenue of the endowment fund.
- An externally restricted contribution is reported as revenue of the corresponding restricted fund. (Under the Restricted Fund Method of accounting, there are no deferred contributions in a restricted fund. All contributions are taken into revenue in the current period.)
- An externally restricted contribution for which there is no corresponding restricted fund is reported in the general fund, using the Deferral Method of accounting for contributions, as described previously.
- An unrestricted contribution is reported as revenue in the general fund in the year in which it is received.

The main body of this Guide uses the Deferral Method of accounting for contributions. More detail on the Restricted Fund Method can be found in Appendix 2. The option to use fund accounting to track contributions is also discussed in Appendix 2.



## The Concept of Materiality

The figures in financial statements may not be perfectly accurate for a variety of reasons including inadvertent omission of entries, accounting coding errors that place an amount in the wrong account or other similar factors. *Materiality* is the term used to describe the significance of financial statement information to decision-makers. Misstatements of financial information are said to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users of the organization's financial statements.

Materiality is a matter of professional judgment in the particular circumstances where misstatements are identified. If the misstatements are not material, there is no requirement under Canadian accounting standards to correct the financial statements. Nevertheless, management is encouraged to correct discovered errors.

## Two Key Financial Statements

There are two key types of financial statements that directors will encounter most frequently, whether as part of the budgeting process, in-year monitoring of results or the review of the external auditor's formal financial statements. These are:

- *Statement of Operations* for a period of time; and
- *Statement of Financial Position* at a point in time.

For the purposes of illustration in this Guide, these two financial statements are titled as shown above; however, organizations are free to use other titles such as "Income Statement" and "Balance Sheet". Further, the Deferral Method of accounting for contributions is used in the discussions and examples that follow in the main body of the Guide. An example of the Restricted Fund Method can be found in Appendix 2.

Two other financial statements are included in the audited financial statements at year-end : *Statement of Changes in Net Assets* and *Statement of Cash Flows*. These two statements are discussed in Appendix 1. The main body of this Guide focuses on the two statements above that directors will review on a regular basis. When reviewing these statements, directors should pay special attention to the cash position of the organization, as healthy cash balances are key to long-term viability.

## Statement of Operations

The Statement of Operations summarizes revenues and expenditures over a period of time. It also shows the net balance between the two: in other words, the Excess (or Deficiency) of Revenues over Expenditures for the period.

Based on the NPO's chart of accounts<sup>9</sup>, the Statement of Operations organizes revenues and expenditures in various categories. Revenues are organized according to the source of the funds (e.g., grants, contributions, fundraising events, social enterprise sales).

Expenditures are grouped together in meaningful categories and may be classified by object (e.g., salaries, rents, supplies), by function (e.g., program delivery, administration, fundraising) or by program (e.g., children's programs, youth programs, adult programs), usually listed from

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<sup>9</sup> A chart of accounts is a way of organizing the many hundreds, indeed likely thousands, of transactions an NPO engages in every year. See Appendix 1 for more details.



largest dollar value to smallest. Management needs to develop an expenditure listing that is both short enough to digest (typically less than one page) and long enough to provide insight into the major types of expenditures.

The last line of the statement of operations is the *Excess (or Deficiency) of Revenues over Expenditures*. The objective of not-for-profit organizations is, of course, not to have a “profit” i.e., an excess of revenues over expenditures; indeed, this is quite evident from their “not-for-profit” status. On that basis, not-for-profit organizations are expected to spend whatever revenues are generated on program delivery; however, a small operating surplus, to buffer against unforeseen eventualities, is not unreasonable.<sup>10</sup>

### Sample Statement of Operations

The following is an example of a Statement of Operations for a charitable not-for-profit organization on an annual basis for the current year, with comparisons to the previous year. It has many of the object categories that NPO directors can expect to encounter. However, each NPO may well choose different categorizations and/or different terminology; further, there may be additional categories applicable to the special circumstances of that organization.

**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF OPERATIONS**  
**For the Current Year Ended December 31**

	<b>Current Year</b>	<b>Previous Year</b>
<b>Revenues</b>	<b>\$000</b>	<b>\$000</b>
Government Grants	8,700	8,150
Foundation Grants	530	500
United Way Grants	60	60
Fee-for-Service	975	920
Contributions	170	100
Social Enterprise	100	80
Fundraising Events	50	40
Investment Income	35	35
Interest and Other	10	15
Amortization of Deferred Contributions	12	14
<i>Total Revenues</i>	<i>10,642</i>	<i>9,914</i>
<b>Expenditures</b>		
Salaries and Benefits	7,940	7,560
Rent and Building Occupancy	1,845	1,600
Office	490	440
Equipment Rental	125	120
Marketing and Communications	173	90
Amortization of Capital Assets	24	30

<sup>10</sup> A recent CRA technical interpretation has questioned whether budgeting for an operating surplus is acceptable for an NPO (to retain its “not-for-profit” status).



Other	5	4
<i>Total Expenditures</i>	<u>10,602</u>	<u>9,844</u>
<b>Excess of Revenues Over Expenditures</b>	<u><u>40</u></u>	<u><u>70</u></u>

A director reviewing this Statement of Operations might generate the analyses and conclusions shown below. The percentages cited are based on current year figures; there is little difference between the percentage figures for the current year and the previous year.

- This NPO is heavily dependent on governments; government grants are 82 percent of total revenues.
- Like most NPO organizations, staffing costs are by far the largest component of costs, at about 75 percent of total expenditures.
- About 50 percent of the organization's capital assets are funded by deferred contributions, as the amortization of deferred contributions is about 50 percent of the total expenditure on amortization of capital assets.
- There is a small excess of revenues over expenditures, creating an operating surplus in both years well below 1 percent of total revenues.
- Growth in total revenues over the previous year was about 7 percent; growth in total expenditures was closer to 8 percent, thus explaining the small reduction in the operating surplus in the current year.
- Staffing costs increased over the level of the previous year by about 5 percent; this is a lower rate of cost increase than for the other expenditure categories.

## Statement of Financial Position

The Statement of Financial Position is taken at a point in time. As noted previously, this Statement is sometimes called the "Balance Sheet", reflecting that the Statement demonstrates Assets equal (i.e., balance) the sum of Liabilities and Net Assets.

How is it that the Statement of Financial Position balances? Recall that, in equation form, we developed earlier the following equality:  $Net\ Assets = Total\ Assets - Total\ Liabilities$ . In a rearrangement of this formula, the balance in the Statement of Financial Position is presented instead as the equivalent equation:  $Total\ Assets = Total\ Liabilities + Net\ Assets$ .

The Statement of Financial Position organizes assets and liabilities based on how close each is to cash. Current assets and current liabilities are typically listed first, being items that are available (assets) or need to be paid (liabilities) within the coming year. Below current assets and current liabilities are long-term assets and long-term liabilities. These long-term items are not expected to become cash or require payment (or be otherwise used) within the next year.

Ordinarily, the organization will have more assets than liabilities, and what is left over—the net assets—are shown below the liabilities, to balance the equation, as demonstrated above. The Net Assets may be disaggregated into categories including endowment assets, unrestricted assets, internally restricted assets, or investment in capital assets, among possible categories.

## Sample Statement of Financial Position

The following is an example of a Statement of Financial Position for the same not-for-profit organization at the December 31<sup>st</sup> current year end, with comparisons to the previous year end. As noted earlier, NPO directors can expect that their organization might use different termin-

ology and additional categories, but the fundamental relationships within the Statement of Financial Position will be the same as shown here. As noted above, the example is based on the Deferral Method for accounting for contributions.

**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF FINANCIAL POSITION**  
**As at December 31 of Current Year**

	<b>Current Year</b>	<b>Previous Year</b>
<b>Assets</b>	<b>\$000</b>	<b>\$000</b>
<i>Current Assets</i>		
Cash and Cash Equivalents	2,370	2,300
Grants Receivable	100	65
Accounts Receivable	25	20
Prepaid Expenses	42	35
	<u>2,537</u>	<u>2,420</u>
Investments	500	500
Capital Assets (Property & Equipment)	1,128	1,150
	<u>4,165</u>	<u>4,070</u>
<b>Liabilities and Net Assets</b>		
<i>Current Liabilities</i>		
Bank Indebtedness	85	85
Accounts Payable	187	135
Current Mortgage Payable	75	75
	<u>347</u>	<u>295</u>
Mortgage Payable	825	900
Other	65	40
	<u>890</u>	<u>940</u>
Deferred Contributions	75	50
Deferred Contributions—Capital Assets	43	35
	<u>118</u>	<u>85</u>
<i>Net Assets</i>		
Net Assets Restricted For Endowments	170	150
Net Assets Invested in Capital Assets	205	140
Net Assets Internally Restricted for Special Projects	330	315
Unrestricted Net Assets	2,105	2,145
	<u>2,810</u>	<u>2,750</u>
	<u>4,165</u>	<u>4,070</u>



Directors reviewing this Statement of Financial Position could reach the following conclusions about the financial status of the organization:

- Total assets increased over the previous year by about 2 percent.
- The working capital ratio (of current assets divided by current liabilities) decreased slightly over the previous year to a value of 7.3 from a value of 8.2.
- Cash and cash equivalents exceeded 55 percent of total assets in both the current year and the previous year, providing significant resources to pay obligations as they come due.
- The value of capital assets declined by about 2 percent, reflecting the depreciation of those assets, net of capital asset additions of \$2,000.
- The principal amount of the mortgage has been paid down by about 8 percent.
- Deferred contributions for use in future operations increased by 50 percent.
- Deferred contributions to be matched with amortization of certain capital assets in the future increased by 23 percent, reflecting additional new contributions restricted for capital purposes.
- There was an increase in total net assets of about 2 percent.

## Items For Directors to Watch For and Questions to Ask

### Oversight of the Two Key Financial Statements

The Statement of Operations and the Statement of Financial Position are inextricably linked. For instance, investment income shown on the Operations Statement is linked to the size and return on investment assets shown on the Financial Position Statement. Consequently, oversight review and questioning by directors may well arise on essentially the same topic from either of the two Statements.

Nevertheless, presented below are some possible questions directors may wish to ask based on the major categories in each statement. The Statement of Financial Position traditionally comes first in audited financial statements and hence is first below:

### Questions to Ask about the Statement of Financial Position

- What are the components of *cash and cash equivalents*? Are any of these at risk of losing value?
- Who owes us the *accounts receivable*? What is the age profile of these accounts? Is there likely to be a problem in collecting these amounts? Has any provision been taken for uncollectable amounts?
- What are the components of *prepaid expenses*? (These often arise from amounts paid for services before they are rendered, like insurance or rent.) Do we have any choice about paying in advance?
- What are the major types of *invested assets (investments)* we hold? Do we have an investment policy? Are the investments in accordance with that policy? What are the prospects for future changes in value and income from these investments? What are the risks associated with these types of investments? Are the risks appropriate for our organization at this time?<sup>11</sup> What happens to these assets if we wind down the organization?
- What are the *capital assets* we own? Where in the organization are they used? How are these assets depreciated or amortized? That is, how do we record the “consumption” or use of these assets over time to reflect their declining useful life and utility to the organization?

<sup>11</sup> If the organization has significant investments, the board may establish an investment committee and engage professional investment advisors. In their oversight role, board members still need to review the major elements of the investment portfolio.

Does this charge reflect reality? Do we have plans to replace these assets as needed? Are we building a replacement fund to pay for replacements? Do we have appropriate insurance on these assets in case they are damaged or lost?

- To whom do we owe *accounts payable*? Do we pay these amounts on a timely basis, and specifically, in accordance with the payment terms that suppliers or others have specified in order to avoid further costs?
- What is the renewal date for the *mortgages or loans* outstanding? What new interest rates can be anticipated and how do they compare to the rates we are currently paying? We have a large cash balance—what are the penalties, if any, involved in paying down the mortgage? Should we consider doing so, or do we have plans for the use of the cash balance in the future?
- What is included in *other liabilities*? To whom are these owed and why? When will these amounts come due, and will we have the cash resources to pay them?

Directors will want to have a keen eye for comparing the figures for the current year compared to the previous year. Significant changes over time (both increases and decreases) may well spark questioning. Directors can themselves undertake simple calculations for items not shown directly on the Statement such as the working capital ratio, the percentage change in the value of invested assets, or the percentage change in capital assets.

### Questions to Ask about the Statement of Operations

The questions that apply to *revenues* raised to support operations tend to be identical for the many potential sources. They are:

- Who provides each category of revenue to the organization and why? Are there restrictions on how these revenues are used?
- What are the costs associated with raising this kind of revenue? Is the effort of raising these funds worthwhile? Are there opportunities to increase revenues from this source?
- In particular, what are our fundraising expenditures as a percentage of funds raised?<sup>12</sup> How does this compare with similar charitable NPOs?<sup>13</sup> Are the fundraising costs warranted, relative to the benefits received? Do we have fundraising protocols that provide guidance to management?<sup>14</sup>
- Who are our competitors for these revenues? Do they represent possible collaborators?
- Have we remained true to our mission in pursuing funding for specific programs, or have we focused too much on acquiring the revenues, even if the activities funded blur our focus (so-called “mission creep”)?
- Are there revenues devoted for a specific program, project or activity? Do these revenues include funding to sustain the organization’s overhead (so-called “core funding”)? If not, how is infrastructure to be funded as the program, project or activity places greater stress on it?
- How do we go about soliciting these revenues? Are we adhering to board policies or standards around ethical fundraising activities?
- How secure is each source of revenue for future periods?

There may be additional questions related to certain components of revenues:

- What is the source of *investment income*? What is our target return on investments? Is this achievable in the current economic climate?

<sup>12</sup> As this percentage may not be evident from the financial statements, management may have to prepare a separate report.

<sup>13</sup> As noted earlier, the financial information provided by charitable NPOs is publicly available on CRA’s website. Also available on the CRA website is *Guidance on Fundraising by Registered Charities* (Document CPS-028); among other things, it includes a section on “areas of concern that could lead to further (CRA) review”.

<sup>14</sup> One source of guidance is the *Ethical Fundraising and Financial Accountability Code* published by Imagine Canada.



- What is included in *other income*? Should any of these components be reported separately?

Here are some potential questions related to the major components of expenditures:

- What lies behind the expenditures on *salaries and benefits*? Where in the organization are employees deployed? What is our compensation policy? When did we last award raises and when is the next scheduled change? What benefits do we provide our employees? How do we handle vacations and vacation pay? How does our compensation stack up in the marketplace? How senior is our staff group? What costs would we incur if we had to lay off staff?
- What explains *rent and occupancy* costs? What spaces do we rent (or own)? What are they used for? Are they sufficient? What are the major lease/rental terms? How long until we have to move or negotiate a new lease?
- What is the nature of our *marketing and communication* costs? How do we select communications channels to use, especially new, digital media channels? How do we identify, select and reach our target audiences?
- What lies behind the charges for *equipment rental*? Has the “rent vs. buy” analysis been undertaken?
- What is the policy for *amortization of capital assets*?
- What is included in *other expenses*? Should any of the items be disclosed separately?

As with the Statement of Financial Position, directors will want to compare the figures in the Statement of Operations for the current year to the previous year. Significant changes over time (both increases and decreases) may well spark questioning. Of particular interest will be the last line: *Excess (or deficiency) of revenues over expenditures*, leading to a careful review of the factors that drove this result.

Directors are encouraged to undertake their own calculations of certain items not appearing directly on the Statement of Operations, such as the percentage of total revenues each revenue source represents. Some organizations, for instance, are heavily dependent on government grants (and, indeed, in some cases, government grants from a single source). Other organizations may be heavily dependent on donations, which in turn are dependent on the state of the economy.

## Oversight at Points in Time

At various points in time—during the budgeting process, when monitoring the internal in-year financial statements, and later when reviewing and approving the audited statements—there are certain additional things directors should watch for.

### When Approving the Budget as a Forward-Looking Financial Statement

A budget is a powerful and useful tool to help boards discharge their fiduciary responsibilities. By satisfying itself that budgets reflect appropriate and prudent uses of an organization’s funds, boards are well on their way to meeting their responsibility for overseeing the effective use of the organization’s assets.

Directors should be familiar with their organization’s plans. It is often the case that they have been directly involved in strategic planning or operational planning sessions. Plans provide the roadmap for directing the NPO’s efforts toward achieving its goals. A budget is the expression of the financial dimension of an approved organizational plan. Put another way, a budget is a financial plan.

A budget is a prediction. It is based on various assumptions about the future. There is obviously some uncertainty about how the future will unfold, and it may be prudent for management to produce various draft budgets based on different scenarios (e.g., inflation rates, government funding renewals, donation levels) for review by the board before one version is selected as the approved budget for the coming year.

Here are some questions that directors may wish to ask during the budget review and approval process:

- What are the key assumptions behind the estimates of revenues and the estimates of expenditures for the coming year?
- Are there significant differences between the current year-end projections and the budget estimates for the upcoming year? If so, what are the explanations for these differences?
- What is the plan for staffing levels and staff compensation for the coming year?
- Are there any significant changes planned for programs and services inherent in the budget?
- Is the budget fully in accord with our strategic plan?
- What “scenarios” have been considered in the budget planning process?
- How much of a cushion do we have against unanticipated adverse events?

It is important to note that operational plans can change during the year as situations crystallize. On that basis, budgets can also change. However, in practice, it is often useful to maintain a budget, once approved, and simply monitor the effect of changed plans on the actual results. Frequently revising budgets can quickly result in confusion about what budget numbers are the most current. If budgets are updated from time to time, it is essential to be very clear and explicit in labeling information to minimize the possibility of confusion. Any changes in budgets should be approved by the board.

### When Monitoring the Internal Financial Statements

The internal financial statements prepared by management during the fiscal year will show budget figures versus actual results, and will show the difference between the two, typically called the *variance*. As noted above, a budget is a prediction. It would be rare if everything unfolds as assumed; consequently, budgets are unlikely to be precisely achieved, as shown by the variances. The in-year statements usually also contain management’s projection of year-end results, based on the latest information available.

By carefully monitoring activities against the plan — and financial results against the budget — boards can assess the effectiveness of the organization’s use of its resources and can determine whether any in-year alterations in the operational plan are warranted. Here are some questions that may assist in that regard:

- Are the variances related to revenues or to expenditures or to both?
- What is the explanation for the significant variances (both “over” and “under”)?
- Are variances arising from external factors beyond the organization’s control (e.g., an unanticipated increase in utility usage or utility rates)?
- How realistic are the projections to year-end? What are the assumptions that underpin those projections?
- Is there a need for action now related to our operations to deal with the variances and/or projections to year-end?

In extreme circumstances, the board may need to consider a change to the strategic plan in order to respond to a financial crisis as evident from large variances from budget projections.



## When Reviewing and Approving the Year-End Audited Financial Statements

The audit offers a key measure of accountability and control for not-for-profit organizations. The auditor, with a mandate to directly review the books and records of the organization, provides an important check on the activities of management.

Very simply put, an auditor reviews what an organization's finance staff creates. This checking is referred to as 'gathering audit evidence', which means that auditors look for evidence that the accounting information audited is correct. This "audit trail" may be well documented within organizations. However, some organizations sponsor events where significant cash is collected, possibly by several volunteers. This situation is problematic for the auditor, since it is practically impossible to be satisfied that all the cash has been collected, deposited and recorded properly in the organization's accounts. Some charitable organizations go to great lengths to implement procedures and controls regarding cash donations, thereby providing documentation that the auditor can review.

The auditor will also assess internal controls and procedures in the organization, to the extent that this might impact the assessment of the validity of information recorded in the accounts.

In very small organizations, controls and procedures may be extremely limited due to lack of formal systems and limited resources available to implement them. On the other hand, in a very large organization, there might be extensive documentation of accounting policies and procedures, the use of computer systems and internal controls. If these systems are determined to be strong and well-functioning, the auditor might be able to reduce the other evidence needed to be gathered to form the audit opinion.

The auditor will also analyze much of the information in the accounts to see whether it is consistent with the organization's activities. Finally, the auditor will look at the financial statements and the accounting policies used by the organization.

In view of all the information the auditor has gathered about the organization, and with all of the auditor's professional experience, the key question the auditor will answer is: *Do the financial statements paint a picture that is a fair presentation of the organization's financial position and results of operations?* At the end of the auditor's engagement, the auditor communicates that opinion to financial statement users through the auditor's report.

The report contains both the audited financial statements with accompanying notes and the auditor's opinion. The notes provide additional important information that supports certain figures in the audited statements. Notes are often essential to clarify or further explain the items in the financial statements. They have the same significance as if the information or explanations were set out in the body of the statements themselves. The opinion can be unqualified or qualified, the latter situation most often due to the auditor's inability to verify cash donations. See Appendix 3 for samples of the auditor's report addressed to the board of directors, one illustrating an unqualified opinion and one illustrating a qualified opinion.

When reviewing the draft audited statements, directors may wish to consider these questions of the auditor:

- Did the auditor initiate any significant changes to management's year-end financial information prior to issuance of the audit opinion and approval of the financial statements? (In the language of accountants, did the auditor require significant adjustments through "journal entries" to the statements originally prepared by management?)
- Did the auditor find any weaknesses in internal controls or accounting policies?
- Did the auditor have any concerns about the activities of the organization that have impacted on the financial results?



- Did management make significant estimates in the financial statements and did the auditor have any concerns about them?
- Were there any issues that might have caused the auditor to issue a qualified report?
- Was there an *in camera* meeting with the auditor (without management present) and an *in camera* meeting with management (without the auditor present)?

Once satisfied with the audited financial statements, the board will approve them and make them available for wider distribution.

## Conclusion

The board of directors is obliged to fulfill its stewardship responsibilities on an ongoing basis. It will do so by regular reviews of financial information prepared for that purpose, by engaging in thorough questioning and probing of the information presented and by continuing to do so until satisfied with the answers to questions. Directors should pay particular attention to variances between budget and actual figures, to major differences between the current year figures and the previous year results, and to consistency between the various statements (Operations, Financial Position, Changes in Net Assets, Cash Flows).

Questioning and probing by the board serves many purposes, including helping directors to develop a sound understanding of the organization's operations and of both the accounting treatment and the choice of accounting policies in financial statements. It also serves as a jumping-off point for substantive debates about the organization's strategies, tactics, plans, policies and risks. There is a time and place for each type of questioning. A comprehensive understanding of the financial state of the organization will be developed over time, rather than in a single, marathon session.

Boards typically review financial reports, including at least a Statement of Operations and a Statement of Financial Position, at a minimum quarterly. However, the exact frequency and level of detail of such reviews will be influenced by many factors, including the adequacy of internal financial processes, the level of expertise of management in financial matters, the complexity of the organization, the financial position of the organization, and the involvement of board committees such as the audit or finance committee.

The board needs to satisfy itself that general purpose reporting documents (audited financial statements and supporting annual reports) are fair and balanced communications of the affairs of the organization, and that the reports address the common questions that many stakeholders may have. The board will do this by reviewing drafts of these reports including any note disclosures and accompanying narrative commentary, comparing them to the more detailed internal reports that the board has used, and by satisfying itself that the financial reporting is sufficient to inform stakeholders who do not have access to the detailed information available to the board.

The board will oversee the process for preparing other specialized reports, satisfying itself as to the adequacy of this process, and will review, as appropriate, specific reports to stakeholders. Where many reports to different funders are prepared, based extensively on financial data that the board has already reviewed (i.e., where the preparation is essentially reformatting rather than new reporting), the board may choose to rely upon management for preparation of these reports. On the other hand, extensive new reporting, or reporting that is critical to the ongoing operations of the organization, may well be reviewed directly by the board or one of its committees before issuance. The board may choose to establish protocols to determine which reports require its review prior to release. Although there may be a number of specialized reports prepared, there is only one set of complete financial statements for an organization, and specialized reports must be consistent with the figures in the financial statements.



As noted earlier, the board may delegate some or all of these tasks to an audit or finance committee. Doing so can be particularly effective. The board can rely in good faith on the work of its committees. However, the board cannot delegate its ultimate responsibility; the entire board remains responsible for the work delegated to its committees.

In sum, the board of directors of a not-for-profit organization has serious duties with respect to oversight of the organization's financial affairs. Directors do not need to be financial experts, but they do need to have an understanding of how financial information is presented. They need to actively review what is presented and participate in the discussions. They need to be able to question and probe management and the auditor, until they are satisfied that their issues have been addressed. In the end, it is the board of directors that holds ultimate accountability for the financial affairs of the organization.

## Appendix 1 : Other Financial Concepts and Statements

### 1. Other Financial Concepts

This Appendix deals with certain additional concepts and statements that NPO directors are likely to encounter.

#### Accounts and Chart of Accounts

Even a small organization can have hundreds or perhaps even thousands of transactions every year. All this information needs to be recorded in one place, historically in a set of ledger books and now, almost without exception, in a computerized accounting system. Every organization needs someone assigned to collect and input every financial transaction.

Keeping track of all this activity in a way that allows for the preparation of many different kinds of reporting requires careful organization of the basic data.

- The *account* is the fundamental unit of organization for all this information. Accounts are established for every type of asset, liability, net assets, revenue and expense that the organization is likely to encounter, and in as much detail as practical, to allow for maximum flexibility in reporting later on. An ordinary, mid-sized NPO can easily have hundreds of accounts to record all its different activities.
- The *chart of accounts* is a highly structured document that shows all accounts, organized in various ways. The chart delineates accounts within the major categories and sub-categories of assets and liabilities, revenues and expenditures, and also, for example, by program or activity or by type of transaction. It is the structure of the chart of accounts that is the key to all subsequent summarization, analysis and reporting of financial information.

It is management's responsibility to develop and maintain a coherent chart of accounts. Directors see the product of the chart of accounts as financial reports are provided to them showing various categories, based on the organization's chart of accounts.

### 2. Other Financial Statements

Two additional statements will appear in the audited financial statements. These two are not typically included by management in budgets or in-year internal reports:

- Statement of Changes in Net Assets; and
- Statement of Cash Flows.

#### Statement of Changes in Net Assets

The statement of changes in net assets provides details about what has happened to the balance of net assets over a period of time (usually a year). Net assets are disaggregated into categories, and the statement will identify the changes that have taken place in each category. A typical high-level categorization of net assets is the following:

- Invested in Capital Assets;<sup>15</sup>
- Endowments (restricted by donors to maintain the capital);
- Internally Restricted (restrictions imposed by the board); and
- Unrestricted (no restrictions at all).

<sup>15</sup> It is optional to report on this category of net assets.



This Statement shows the changes in each of these categories during the period arising from various activities such as new endowment contributions, board decisions to increase internally restricted funds, an operating surplus, further investment in capital assets, among others.

**Sample Statement of Changes in Net Assets**

The following is a sample Statement of Changes in Net Assets for the same charitable organization illustrated in the main body of the Guide. This NPO has received endowment contributions during the year. It has also identified amounts to be used in the future for certain purposes (i.e., internally restricted). The organization is using the Deferral Method of accounting for contributions.

**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**For the Current Year Ended December 31**

	Current Year					Previous Year
	Invested in Capital Assets	Endowment	Internally Restricted For Special Projects	Unrestricted	TOTAL	TOTAL
Balance, Beginning of Year	140	150	315	2,145	2,750	2,680
Excess (Deficiency) of Revenues over Expenditures	-12*			52	40	70
Endowment Contributions		20			20	0
Investment in Capital Assets	77**			-77	0	0
Internally Imposed Restrictions		0	15	-15	0	0
Balance, End of Year	<u>205</u>	<u>170</u>	<u>330</u>	<u>2,105</u>	<u>2,810</u>	<u>2,750</u>

\*Consists of:

a) Amortization of deferred capital contributions	12
b) Amortization of capital assets	-24
	<u>-12</u>

\*\*Consists of:

a) Purchases of capital assets with unrestricted funds	2
b) Repayment of mortgage principal	75
	<u>77</u>



An analysis of this sample Statement of Changes in Net Assets generates the following observations about the net assets of the organization:

- The end of year balances shown for each category of net assets is identical to the value shown in the net asset section in the Statement of Financial Position.
- In total, net assets have grown from \$2,750,000 to \$2,810,000, an increase of 2 percent during the current year.
- The current year's operating surplus contributed \$52,000 to unrestricted net assets; further, the board determined that it would transfer \$15,000 of the accumulated unrestricted net assets to an internally restricted fund for special projects.
- During the year, the organization received new endowment contributions totaling \$20,000.

This Statement illustrates the use of accompanying notes to explain particular figures. There are two notes in the column for Net Assets Invested in Capital Assets:

- The first note explains the Deficiency of Revenues over Expenditures of \$12,000, arising from two items reported on the Statement of Operations (\$12,000 of deferred capital contributions recognized as revenues, less \$24,000 of amortization cost).
- The second note explains the increased Investment in Capital Assets of \$77,000 using unrestricted funds, arising from two items reported on the Statement of Cash Flows, (mortgage payment of \$75,000 related to the acquisition of capital assets and cash purchase of capital assets of \$2,000).

### Statement of Cash Flows

The Statement of Cash Flows focuses exclusively on cash (and cash equivalents): how the organization generates cash and uses it, and for what purposes. In particular, the statement of cash flows identifies cash provided by, or used in, three areas over the year:

- Operations (i.e., cash generated by an operating surplus; cash used to fund an operating deficit);
- Investing activities (i.e., using cash to acquire investments; generating cash from selling investments); and
- Financing activities (i.e., generating cash through borrowing; paying cash to repay borrowing).

On first blush, it might seem that the way to calculate the year-end cash balance is to start with the cash at the beginning of the year and add, for each category above, all the transactions that occurred during the year (either positive or negative). However, this is too simple, as there are transactions which are included in these categories that do not involve cash.

For example, the Statement of Operations includes amortization of capital assets (commonly known as "depreciation"); this is an expenditure that reduces operating surplus, but does not involve the disbursement of cash. On the Statement of Financial Position, an increase in accounts receivable reflects an increase in revenues (on the Statement of Operations) and an increase in working capital, but does not increase cash balances.

Also appearing on the Statement of Financial Position are deferred contributions. A deferred contribution that is amortized (i.e., an expenditure from monies donated previously to cover amortization of an associated capital asset) increases current revenues (on the Statement of Operations), but the cash was previously accounted for when the contribution was received, and hence the associated current expenditure reduces the cash balance. On the other hand, a contribution received in the current period but deferred (i.e., was not spent in the current period) does not alter revenues, but does increase the cash balance.

There are two methods for presenting the Statement of Cash Flows:

- The *direct method* focuses on cash transactions: cash acquired increases the cash balance; cash expended decreases the cash balance. Under the direct method, the equation that underpins the Statement of Cash Flows is *Ending Cash Balance = Opening Cash Balance + Cash Acquired - Cash Expended*.
- The *indirect method* focuses on the Operating Surplus derived from the Statement of Operations and makes certain adjustments to that figure. As this method is used by most NPOs, it is described in more detail below.

For an NPO that did not engage in any investing activities or financing activities during the year, the fundamental equation for a Statement of Cash Flows under the indirect method is: *Opening Cash Balance + Surplus from Operations + Adjustments for operating items not requiring Cash + Changes in non-cash Working Capital = Ending Cash Balance*.<sup>16,17</sup>

Under this method, the statement of cash flows is typically presented in a “reconciliation” format, starting with the Excess (Deficiency) of Revenues Over Expenditures, then adjusting for the non-cash items in operations and the changes in non-cash working capital items, to arrive at cash provided by (or used in) operations. In equation form, this mode of presentation involves two equations:

1. *Surplus from Operations + Adjustments for operating items not requiring Cash + Changes in non-cash Working Capital = Change in Cash Balance*
2. *Ending Cash Balance = Opening Cash Balance + Change in Cash Balance during the year.*

#### **Sample Statement of Cash Flows**

The following sample Statement of Cash Flows is based on the reconciliation method, starting with the Excess (or Deficiency) of Revenues over Expenditures, as taken from the Statement of Operations for the same not-for-profit organization.

<sup>16</sup> If the organization did engage in investing and financing activities, the equation becomes: *Opening Cash Balance + Surplus from Operations + Adjustments for operating items not requiring Cash + Changes in non-cash Working Capital + Investing activities + Financing activities = Ending Cash Balance*.

<sup>17</sup> Note that it is possible for an organization to have an operating surplus in the current year, yet find that the year-end cash balance has declined. The explanation rests with the many adjustments shown in the equation, which could in total cause the cash balance to fall.



**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF CASH FLOWS**  
**For the Current Year Ended December 31**

	<b>Current Year \$000</b>	<b>Previous Year \$000</b>
<b>Operating Activities</b>		
Excess (deficiency) of revenues over expenditures	40	70
Add (deduct) items not involving cash:		
Amortization of Capital Assets	24	30
Amortization of Deferred Capital Contributions	-12	-14
	<u>52</u>	<u>86</u>
<b>Change in Non-Cash Working Capital Balances Related to Operations</b>		
Accounts Receivable	-40	10
Prepaid Expenses	-7	-1
Accounts Payable	52	-20
Deferred Contributions	25	5
	<u>30</u>	<u>-6</u>
<b>Cash (Used In) Provided By Operating Activities</b>	<b>82</b>	<b>80</b>
<b>Investing Activities</b>		
Endowment Contributions	20	0
Deferred contributions—Capital assets	20	0
Purchase of Capital Assets	-2	0
	<u>38</u>	<u>0</u>
<b>Financing Activities</b>		
Mortgage Payment	-75	-75
Other	25	0
	<u>-50</u>	<u>-75</u>
<b>Net Increase (Decrease) in Cash During the Year</b>	<b>70</b>	<b>5</b>
Cash Balance, Beginning of Year	<u>2,300</u>	<u>2,295</u>
<b>Cash Balance, End of Year</b>	<b><u>2,370</u></b>	<b><u>2,300</u></b>



The Statement of Cash Flows is perhaps the most difficult one for directors to “decode”, most likely because positive and negative entries can occur within the same category. Further a positive entry in one year can become a negative entry in the next year and vice-versa. In analyzing this sample Statement of Cash Flows, directors can determine the following:

- The year-end cash balance of \$2,370,000 for the current year as shown above is identical to that amount shown on the Statement of Financial Position.
- The year-end cash balance increased from the previous year by \$70,000 from the previous year’s amount of \$2,300,000, an increase of about 3 percent.
- One of the prime drivers of this change was donor contributions: deferred contributions for operations increased by \$25,000 and deferred contributions for capital assets increased by \$20,000. (In other words, certain new contributions were received during the current year, but were not used during the year. The unspent balance in each account was added to deferred contributions, leading to an increase of \$25,000 and \$20,000 respectively.) New endowment contributions of \$20,000 were also recorded during the year.
- Another driver was a significant increase in accounts payable of \$52,000; this amount was included in expenditures but cash was not expended in the current year to pay for these obligations.
- On the other hand, grants receivable in the current year increased by \$35,000 and accounts receivable increased by \$5,000. In total, \$40,000 was added to revenues related to these two items, but cash was not received for them in the current year.
- Cash of \$75,000 was expended in both years to pay mortgage obligations.

### 3. Items For Directors to Watch For and Questions to Ask

As noted earlier, directors are most likely to see the Statement of Changes in Net Assets and the Statement of Cash Flows only as part of the audited financial statements. This provides opportunities for the board to reflect once more on the year just completed and to ponder the soundness of the financial plan for the upcoming year, which has as its foundation the end-of-year results captured in the audited statements.

#### Questions to Ask about the Statement of Net Assets

- For each category, what caused the change in net asset value? What changes are anticipated in the coming year?
- Is the balance in each internally restricted fund sufficient for the purposes intended by the board? Should the board consider a transfer in/out of these funds?
- Has the use of internally restricted funds been in accordance with the restrictions imposed by the board?
- Should the board consider a transfer from unrestricted net assets to internally restricted net assets thereby setting aside these monies for a particular purpose?
- Should the board consider establishing another internally restricted purpose for net assets (i.e., in the sample case, another purpose other than special projects)?

#### Questions to Ask About the Statement of Cash Flows

- What is the explanation for any significant differences, year to year, in the entries on this Statement?
- Are we investing in our capital assets sufficiently to maintain them at an adequate service level (i.e., are the entries for amortization of capital assets at the appropriate level)?
- Are we anticipating any investing activities in the coming year? Will we have cash available to increase our investments? Or do we anticipate the need to sell any investments?
- Are we anticipating any financing activities in the coming year? Will we need to borrow to finance our activities? Or will we have sufficient cash to pay down our existing borrowings?
- Are we anticipating any significant capital purchases in the coming year? How will these be paid for/financed?



## Appendix 2 : Fund Accounting

### 1. The Use Of Fund Accounting

#### How Fund Accounting Works

Tracking externally restricted contributions and internally restricted net assets is an important task for management. A common method of doing so is the use of *fund accounting*. A not-for-profit organization may choose to use fund accounting. In other words, fund accounting is not obligatory, even if contributions are restricted by donors. Tracking restricted contributions to ensure they are expended according to the restrictions is obligatory.

Fund accounting is based on the formal creation of individual funds (i.e., “pots of assets” segregated for accounting purposes). A not-for-profit organization may formally establish a number of funds, reflecting the variety of restrictions placed on them, either externally or internally.

Fund accounting groups together transactions and accounts related to similarly restricted activities. Each fund has its own revenues and expenditures, its own assets and liabilities and its own net asset balance (when using fund accounting, the latter is called a *fund balance*).

For reporting purposes, particularly external reporting, these many different funds are often combined into a small number of similar funds, typically reflecting *endowments* (where the capital cannot be spent at all, but the income derived from it can be used), *restricted funds* (which can be spent, but only on certain activities),<sup>18</sup> and *unrestricted funds* (which the organization may use for any purpose). Sometimes, an additional distinction is made between *externally-restricted funds* (i.e., by donors) and *internally-restricted funds* (i.e., by the board).

The Statement of Operations and Fund Balances shows, for each category of fund, the revenues, the expenditures, the excess (or deficiency) of revenues over expenditures, and the resultant change in the fund balance. In equation form, the year-end fund balance is calculated this way: *Opening Fund Balance + Excess of Revenues over Expenditures = Closing Fund Balance*.<sup>19</sup>

For each of the selected fund categories, the Statement of Financial Position shows the assets, the liabilities and the fund balance. In equation form: *Fund Balance = Assets - Liabilities*.<sup>20</sup>

There can be transfers from unrestricted funds to internally restricted funds; these would be shown by a reduction in the net fund balance of the former and an equal addition in the latter. Any transfers between funds usually require the approval of the board.

The board can therefore expect to exercise oversight of funds in the budget planning process (which could include consideration of anticipated revenues and proposed expenditures from various funds), during in-year monitoring (of results vs. budget amounts) and finally as part of the audited financial statements (where the auditor will provide an independent check of the financial statements for all the organization’s funds).

18 Although a board of directors can create various funds, a restriction on the use of funds imposed by the board does not create a “restricted fund” in the same way as a restriction imposed by a donor, as future boards could reverse the current board’s restriction. A permanent restriction must come from an external source.

19 If the Statement of Operations shows a deficit (excess of expenditures over revenues), the equation becomes: *Opening Fund Balance - Deficit = Ending Fund Balance*.

20 If the Deferral Method is being used for accounting for contributions, deferred contributions are also deducted from Assets in determining the Fund Balance. The equation becomes *Fund Balance = Assets - Liabilities - Deferred Contributions*. The choice of accounting method for recording contributions is discussed in the next section.

Funds are sometimes shown in a separate section of the organization's financial statements, reflecting that they are part of, but separate from, the other activities of the organization. In other cases, the financial figures for each fund category are shown on the organization's Statement of Operations and Statement of Financial Position as separate columns, thereby combining all activities together on each of these Statements.

### **The Choice of Accounting Method for Recording Contributions under Fund Accounting**

A not-for-profit organization that is not using fund accounting is obliged to use the Deferral Method of accounting for contributions, as was shown in the main body of this Guide. On that basis, contributions for operations received in the current year that are not used in the current year are reported as deferred contributions. Smaller organizations that do not receive restricted contributions or receive infrequent and small contributions may find this method less complex, as it does not involve fund accounting.

However, once an NPO has opted for fund accounting, it can choose between the two methods of accounting for contributions for operations:

- It can use the Deferral Method of matching revenues with expenditures in the period in which those expenditures are incurred for all its funds, with unused contributions in each fund showing as deferred contributions on the Statement of Financial Position. The main body of the Guide and Appendix 1 used the Deferral Method.<sup>21</sup>
- It can use the Restricted Fund Method of accounting, which takes a restricted contribution to a fund into revenue immediately in the year in which it is recorded, thereby immediately increasing the net assets of that fund.<sup>22</sup> When there are expenditures from the fund, the net asset balance is reduced. When using the Restricted Fund Method with fund accounting, the organization must have an unrestricted fund usually called an Operating Fund (or General Fund) which is accounted for using the Deferral Method.

### **Sample Statements Using Fund Accounting**

Most NPOs that choose fund accounting use the Restricted Fund Method of accounting for restricted contributions. Accordingly, the following sample statements are presented in that way.

Under fund accounting, as the net assets are shown as fund balances included on the Statement of Operations, there are only three financial statements:

- Statement of Financial Position;
- Statement of Operations and Changes in Fund Balances; and
- Statement of Cash Flows.

As suggested above, the statements are shown utilizing columns for each of the funds. However, it is common practice to show the Statement of Cash Flows on a total basis, without separation into funds.<sup>23</sup>

For the purposes of illustration, the set of statements shown below demonstrating restricted fund accounting includes three funds for the not-for-profit organization:

21 As readers have seen the Deferral Method, it is not shown here utilizing fund accounting. Fund accounting adds columns to various statements for each fund category; however the sum of the column entries provides totals that are identical to the one column approach without fund accounting demonstrated earlier.

22 If there is no fund established that reflects the external restrictions, the contribution is placed into the Operating Fund which uses the Deferral Method.

23 NPOs can choose to present the Statement of Cash Flows for each category of funds.



1. An Operating Fund (a fund which holds the accumulated operating surpluses on an unrestricted basis, available for the NPO's future use, and holds internally restricted funds, in this example for special projects, and holds restricted amounts for which there is no applicable restricted fund);
2. A Capital Asset Fund (an externally restricted fund related to capital assets); and
3. An Endowment Fund (an externally restricted fund reflecting endowment contributions from donors).

The three sample statements that follow are based on the same financial information already presented for the NPO used for illustrative purposes. When reviewing these statements, readers will note the following differences from previous sample statements presented in this Guide, arising from the use of the Restricted Fund Method of accounting for contributions, instead of the Deferral Method, and the use of fund accounting.

#### **On the Statement of Financial Position:**

- For each fund, the column delineates how assets are held, the liabilities outstanding and the associated fund balance.
- Although total assets and the total liabilities plus fund balances are identical to the total assets and total liabilities plus net assets shown previously in the main body of the Guide, the presentation here differs, as various amounts are allocated to the three funds, as shown across the rows.
- There is a difference between the total fund balance and the total of net assets reported previously, arising from the recognition of contributions. Under the Restricted Fund Method, contributions may be recognized in the immediate period if there is an appropriate restricted fund (as in this case) thereby enhancing the fund balances, whereas under the Deferral Method, contributions are deferred to the period in which they are used.

#### **On the Statement of Operations and Fund Balances:**

- Deferred contributions appear only in the Operating Fund, as the accounting treatment in that fund is based on the Deferral Method whereas the other funds use the Restricted Fund Method which does not defer contributions.
- The organization has decided to create a Capital Asset Fund. Restricted contributions for capital purposes received during the year are included as revenue in the Capital Asset Fund, as the organization is utilizing the Restricted Fund Method.
- Total revenues across all funds are higher than the total revenues reported previously, due to recognizing contributions, both for capital and for endowment, as revenues in the current period under the Restricted Fund Method, instead of deferring the contributions as had been done previously under the Deferral Method.
- The total expenditure figure across all funds is identical to the amount reported previously on the Statement of Operations.
- As total revenues are higher and total expenditures are the same, the total excess of revenues over expenditures for the organization is higher than previously reported.

**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF FINANCIAL POSITION**  
**As at December 31 of Current Year**

	Current Year			TOTAL	Previous Year \$000
	Operating Fund	Capital Asset Fund	Endowment Fund		
<b>Assets</b>					
<i>Current Assets</i>					
Cash and Cash Equivalents	2,350	20		2,370	2,300
Grants Receivable	100			100	65
Accounts Receivable	25			25	20
Prepaid Expenses	42			42	35
	<u>2,517</u>	<u>20</u>	<u>0</u>	<u>2,537</u>	<u>2,420</u>
Investments	330		170	500	500
Capital Assets (Property & Equipment)		1,128		1,128	1,150
	<u>330</u>	<u>1,128</u>	<u>170</u>	<u>1,628</u>	<u>1,650</u>
	<u>2,847</u>	<u>1,148</u>	<u>170</u>	<u>4,165</u>	<u>4,070</u>
<b>Liabilities and Fund Balances</b>					
<i>Current Liabilities</i>					
Bank Indebtedness	85			85	85
Accounts Payable	187			187	135
Mortgage Payable		75		75	75
	<u>272</u>	<u>75</u>	<u>0</u>	<u>347</u>	<u>295</u>
Mortgage Payable		825		825	900
Other	65			65	40
	<u>65</u>	<u>825</u>	<u>0</u>	<u>890</u>	<u>940</u>
Deferred Contributions	75			75	50
	<u>75</u>	<u>0</u>	<u>0</u>	<u>75</u>	<u>50</u>
<i>Fund Balances</i>					
Invested in Capital Assets	0	228		228	175
Externally Restricted	0	20		20	0
Endowment	0		170	170	150
Internally Restricted	330			330	315
Unrestricted	2,105			2,105	2,145
	<u>2,435</u>	<u>248</u>	<u>170</u>	<u>2,853</u>	<u>2,785</u>
	<u>2,847</u>	<u>1,148</u>	<u>170</u>	<u>4,165</u>	<u>4,070</u>



**NOT-FOR-PROFIT ORGANIZATION**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**

For the Current Year Ended December 31

	Current Year			TOTAL	Previous Year \$000
	Operating Fund	Capital Asset Fund	Endowment Fund		
<b>Revenues</b>					
Government Grants	8,700			8,700	8,150
Foundation Grants	530			530	500
United Way Grants	60			60	60
Fee for Service	975			975	920
Contributions	170	20	20	210	100
Social Enterprise	100			100	80
Fundraising Events	50			50	40
Investment Income	35			35	35
Interest and Other Income	10			10	15
<i>Total Revenues</i>	<u>10,630</u>	<u>20</u>	<u>20</u>	<u>10,670</u>	<u>9,900</u>
<b>Expenditures</b>					
Salaries and Benefits	7,940			7,940	7,560
Rent and Building Occupancy	1,845			1,845	1,600
Office	490			490	440
Equipment Rental	125			125	120
Marketing and Communications	173			173	90
Amortization of Capital Assets		24		24	30
Other	5			5	4
<i>Total Expenditures</i>	<u>10,578</u>	<u>24</u>	<u>0</u>	<u>10,602</u>	<u>9,844</u>
<b>Excess of Revenues Over Expenditures</b>	52	-4	20	68	56
Fund Balances, January 1	2,460	175	150	2,785	2,729
Interfund Transfers	-77	77			0
<b>Fund Balances, December 31</b>	<u><b>2,435</b></u>	<u><b>248</b></u>	<u><b>170</b></u>	<u><b>2,853</b></u>	<u><b>2,785</b></u>

**NOT-FOR-PROFIT ORGANIZATION  
STATEMENT OF CASH FLOWS  
For the Current Year Ended December 31**

	<b>Current Year \$000</b>	<b>Previous Year \$000</b>
<b>Operating Activities</b>		
Excess (deficiency) of revenues over expenditures	68	56
Add (deduct) items not involving cash:		
Amortization of Capital Assets	24	30
	<u>92</u>	<u>86</u>
<b>Change in Non-Cash Working Capital Balances Related to Operations</b>		
Grants Receivable	-35	0
Accounts Receivable	-5	10
Prepaid Expenses	-7	-1
Accounts Payable	52	-20
Deferred Contributions	25	5
	<u>30</u>	<u>-6</u>
<b>Cash (Used In) Provided By Operating Activities</b>	<b>122</b>	<b>80</b>
<b>Investing Activities</b>		
Purchase of Capital Assets	-2	0
	<u>-2</u>	<u>0</u>
<b>Financing Activities</b>		
Mortgage Payment	-75	-75
Other	25	0
	<u>-50</u>	<u>-75</u>
<b>Net Increase (Decrease) in Cash During the Year</b>	<b>70</b>	<b>5</b>
Cash Balance, Beginning of Year	2,300	2,295
<b>Cash Balance, End of Year</b>	<b><u>2,370</u></b>	<b><u>2,300</u></b>



## 2. Items For Directors to Watch For and Questions to Ask Related to Fund Accounting

Fund accounting is a different way of organizing and presenting the same financial information for an NPO. Consequently, most of the questions directors might have about the Statement of Financial Position and Statement of Operations and Changes in Balances and the Statement of Cash Flows are the same as in the main body of the Guide and are not repeated here. However, as the example for the same not-for-profit organization has shown, fund accounting does give prominence to each of the fund categories, leading to additional questions directors might wish to ask:

- Is the use of fund accounting still warranted in the current circumstances?<sup>24</sup>
- For each externally restricted fund, has the use of the monies been in accordance with the restrictions imposed by the donors?
- For each internally restricted fund, has the use of monies been in accordance with the restrictions created by the board?
- Have all the inter-fund transfers as shown on the Statement of Operations and Changes in Fund Balances been approved by the board?
- Are the summary categories for reporting on restricted funds and unrestricted funds the most appropriate ones?

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<sup>24</sup> Directors of an NPO not currently using fund accounting might ask the opposite question: Is fund accounting warranted now in the current circumstances (e.g., additional restricted contributions; new internally restricted purposes for net assets)? Normally, NPOs do not change the accounting methodology, so these questions may be irrelevant in almost all cases.



## Appendix 3 : Samples of the Auditor's Report Addressed to the Board of Directors: Unqualified and Qualified Opinions

### 1. Alzheimer Society of Canada, Year ended March 31, 2011 (unqualified)



#### Independent Auditor's Report

To the Board of Directors of  
Alzheimer Society of Canada/Société Alzheimer du Canada

Grant Thornton LLP  
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We have audited the accompanying financial statements of Alzheimer Society of Canada/Société Alzheimer du Canada, which comprise the balance sheet as at March 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alzheimer Society of Canada/Société Alzheimer du Canada as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A stylized, handwritten-style signature of "Grant Thornton LLP" in black ink.

Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
June 6, 2011

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## 2. Canadian Cancer Society, Year ended January 31, 2011 (qualified)



**KPMG LLP**  
**Chartered Accountants**  
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 Canada

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### INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Cancer Society - Société Canadienne du Cancer

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Canadian Cancer Society - Société Canadienne du Cancer, which comprise the statement of resources as at January 31, 2011, the statements of financial activities - operations and externally restricted resources, changes in resources and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Page 2

*Basis for Qualified Opinion*

In common with many charitable organizations, the Canadian Cancer Society - Société Canadienne du Cancer derives its revenue from the general public, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Canadian Cancer Society - Société Canadienne du Cancer and we were not able to determine whether any adjustments might be necessary to revenue, decrease in resources, assets and resources.

*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial resources of the Canadian Cancer Society - Société Canadienne du Cancer as at January 31, 2011, and its results of financial activities, its changes in resources and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Canada Corporations Act, we report that, in our opinion, the accounting principles used in the preparation of these financial statements have been applied on a basis consistent with that of the preceding year.

Chartered Accountants, Licensed Public Accountants

June 18, 2011  
Toronto, Canada



## Appendix 4 : Pledges, Bequests, Donations-In-Kind

There are three types of contributions that create special accounting considerations:

- *Pledges* are commitments to provide donations in the future;
- *Bequests* are commitments in a donor's will to provide contributions to the organization; and
- *Donations-in-kind* are contributions of goods or services, rather than cash.

For pledges and bequests, the key issue is whether to record the commitment as a receivable, thereby increasing the assets of the organization. Judgment is required in deciding to record a particular pledge or bequest as a contribution receivable. Because of the non-reciprocal nature of contributions, there may be considerable uncertainty surrounding collectability.

Canadian accounting standards provide for recording a contribution receivable when the amount to be received can be reasonably estimated and when ultimate collection is reasonably assured. When collectability is uncertain, a contribution would not be recognized until it has been received. The further in the future the contribution is expected to be received the greater is the uncertainty associated with collectability.

The standards also require that the pledges and bequests that have been recognized as receivables be separately disclosed on the audited financial statements. Such disclosure helps financial statement users to understand the significance of these uncollected amounts to the organization's financial position.

For donations-in-kind, the key consideration for organizations that have chosen an accounting policy to record them in their financial statements is assessing the fair value of the donation of goods or services received.

Organizations typically develop accounting policies to cover the accounting treatment of these types of contributions. Once the policies are developed, they should thereafter be consistently applied.

### Recognizing a Pledge

Whether a pledge will be collected depends on factors outside the organization's control, such as changing economic conditions and the continued goodwill and ability to pay of the donor. In many cases, pledges would not meet the criteria for recognition and therefore would not be recognized until the pledge is actually received. However, organizations that have large, annual fundraising campaigns may be able to use historical results to estimate the proportion of the total amount pledged that will be collected and could recognize that proportion as a receivable. The uncertainty associated with pledges due more than a year from the reporting date would normally preclude their recognition.

### Recognizing a Bequest

Although donors may signal to the organization that they have included a bequest in their will, from an accounting perspective, there is considerable uncertainty on two fronts associated with a bequest: the timing of the receipt of the contribution and the amount that will be received. In most cases, a bequest contribution will not be recognized until it is actually received by the organization.



### **Recognizing Donations-In-Kind**

Donations-in-kind also present accounting considerations that require judgment. If the accounting policy is to record donations-in-kind, a contribution of goods or services may be recognized in the financial statements when a fair value can be reasonably estimated and when the donated goods or services would otherwise have been purchased. Fair value would be estimated using market or appraisal values at the date of the donation.



## Appendix 5 : Glossary of Financial Terms

The following definitions are taken from the *CICA Handbook* and other sources, as appropriate.

**Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

**Accounts payable** are amounts owed by an organization.

**Accrual accounting** records transactions when they occur, regardless of when money actually changes hands between the organization and third parties.

**Amortization** is the writing off of the cost of an asset, less any residual value, in a rational and systematic manner over its useful life. Depreciation accounting is a form of amortization applied to tangible capital assets.

**Assets**, in general, are possessions having value. In accounting, assets are resources owned, or in some cases controlled, by an individual or organization as a result of transactions or events from which future economic benefits are expected to flow to that individual or organization.

**Capital assets**, comprising tangible properties, such as land, buildings and equipment, and intangible properties, are identifiable assets that meet all of the following criteria:

- are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other capital assets;
- have been acquired, constructed or developed with the intention of being used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

**Cash accounting** records transactions only when there is an exchange of cash.

**Contributions** are non-reciprocal transfers to a not-for-profit organization of cash or other assets or non-reciprocal settlements or cancellations of its liabilities. Government funding provided to a not-for-profit organization is considered to be a contribution.

**Current assets** are those assets that are in the form of cash, or expected to become cash within the coming year.

**Current liabilities** are those obligations that have to be paid within the coming year.

**Deferral method** Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets. All other contributions are reported as revenue of the current period. Organizations that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method.

**Deferred contribution** is a restricted contribution received or recorded as receivable but carried forward to be taken into income in future periods as the related restrictions are met.

**Endowment contribution** is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.

**Endowment fund** is a self-balancing set of accounts which reports the accumulation of endowment contributions. Under the restricted fund method of accounting for contributions, only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund. Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as interfund transfers.

**Expenditures/Expenses** are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity's ordinary activities.

**Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

**Fiscal year** is the twelve month period designated by the organization for its "business year".

**Fund accounting** comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.

**General fund** is a self-balancing set of accounts which, under the restricted fund method of accounting for contributions, reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented. The fund balance represents net assets that are not subject to externally imposed restrictions.

**Internal controls** are all measures taken to safeguard assets, check the accuracy and reliability of accounting data, promote operating efficiency and ensure compliance with the organization's policies and legislation under which it operates.

**Liabilities**, a synonym for debt, represent amounts that it is expected will require settlement in the future as a result of events and transactions that occurred prior to the accounting date, or obligations for future delivery of goods or services for which payment has already been received.

**Long-term assets (or capital assets)** are not expected to be converted to cash within a year.

**Long-term liabilities** are obligations to make payments in the future, beyond one year.

**Materiality** is the quality of being important. As a general rule, in the context of financial reporting, materiality may be judged in relation to the reasonable prospect of an item or aggregate of items being significant to financial statement users in making decisions.

**Net assets**, sometimes referred to as equity or fund balances, is the residual interest in a not-for-profit organization's assets after deducting its liabilities. Net assets may include specific categories of items whose use may be either restricted or unrestricted.

**Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

**Note disclosure** is explanatory or supplementary information that elaborates on data summarized in the main body of the financial statements or provides additional information that is important to understanding the situation being reflected in the statements.



**Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

**Related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

**Restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.

**Restricted fund** is a self-balancing set of accounts, the elements of which are restricted or relate to the use of restricted resources. Under the restricted fund method of accounting for contributions, only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund.

**Restricted fund method** of accounting for contributions is a specialized type of fund accounting which involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds and an endowment fund, if applicable. Reporting of financial statement elements segregated on a basis other than that of use restrictions (e.g., by program or geographic location) does not constitute the restricted fund method.

**Restrictions** are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as “reserves” or “appropriations”.

**Revenues** are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity.

**Statement of changes in net assets** provides information about changes in the portions of net assets attributable to endowments, internal and external restrictions, and unrestricted net assets.

**Statement of cash flows** provides information about the sources and uses of cash by the organization in carrying out its operating, financing and investing activities for the period.

**Statement of financial position** presents the organization’s economic resources, obligations and net assets as at the reporting date.

**Statement of operations** presents information about changes in the organization’s economic resources and obligations for the period.





## QUESTIONS FOR DIRECTORS TO ASK

**Unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution.

**Working capital** is the difference between current assets and current liabilities.

**Working capital ratio** describes how many dollars of current assets are on hand for each dollar of current liabilities.



## Where to Find More Information

### CICA Publications on Governance\*

#### The Director Series

#### The 20 Questions Series

- 20 Questions Directors and Audit Committees Should Ask about IFRS Conversions (Revised)
- 20 Questions Directors Should Ask about Building a Board
- 20 Questions Directors Should Ask about CEO Succession
- 20 Questions Directors Should Ask about Codes of Conduct (2nd ed)
- 20 Questions Directors Should Ask about Crisis Management
- 20 Questions Directors Should Ask about Crown Corporation Governance
- 20 Questions Directors Should Ask about Director Compensation
- 20 Questions Directors Should Ask about Directors' and Officers' Liability Indemnification and Insurance
- 20 Questions Directors Should Ask about Executive Compensation (2nd ed)
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- 20 Questions Directors Should Ask about Special Committees
- 20 Questions Directors Should Ask about Strategy (3rd ed)

\* Available at [www.rogb.ca](http://www.rogb.ca)



### Director Briefings

Climate Change Briefing—Questions for Directors to Ask

Controlled Companies Briefing—Questions for Directors to Ask

Diversity Briefing—Questions for Directors to Ask

Long-term Performance Briefing—Questions for Directors to Ask

Shareholder Engagement—Questions for Directors to Ask

Sustainability: Environmental and Social Issues Briefing—Questions for Directors to Ask

### Director Alerts

The ABCP Liquidity Crunch—questions directors should ask

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—questions for directors to ask

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## The Not-for-Profit Director Series

### NPO 20 Questions Series

- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Board Recruitment, Development and Assessment
- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Fiduciary Duty
- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Governance
- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Human Resources
- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Risk
- 20 Questions Directors of Not-for-Profit Organizations Should Ask about Strategy and Planning
- Liability Indemnification and Insurance for Directors of Not-for-Profit Organizations

### NPO Director Alerts

- Pandemic Preparation and Response—questions for directors to ask
- Increasing Public Scrutiny of Not-for-Profit Organizations—questions for directors to ask
- New rules for charities' fundraising expenses and program spending—questions for directors to ask
- New Accounting Standards for Not-for-Profit Organizations—questions for directors to ask
- The New Canada Not-For-Profit Corporations Act—questions for directors to ask

### Other Publications

- A Guide to Financial Statements of Not-For-Profit Organizations—questions for directors to ask
- Accountants on Board—A guide to becoming a director of a not-for-profit organization

### The CFO Series

- Deciding to Go Public: What CFOs Need to Know
- Financial Aspects of Governance: What Boards Should Expect from CFOs
- How CFOs are Adapting to Today's Realities
- IFRS Conversions: What CFOs Need to Know and Do
- Risk Management: What Boards Should Expect from CFOs
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