

**THE SALVATION ARMY
CANADA & BERMUDA**



**Additional Information
&
Answers to Commonly Asked Questions**

**TERRITORIAL CONSOLIDATED
FINANCIAL STATEMENTS**

**Finance Department
January 2007**

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INTRODUCTION

The second consolidation discussion paper and invitation to comment was issued on September 14, 2006 with a response deadline of November 15, 2006. Each division was asked to distribute the paper widely within their jurisdiction, in order to obtain as broad a readership as possible, and the invitation was open to any interested individual, whether officer or layperson, employee or volunteer.

The purpose of this document is to provide additional information on the various aspects of the consolidation project in the form of answers to the commonly raised questions in the second discussion paper and invitation to comment. This additional information will provide further details to all readers on the implications of the project.

TERRITORIAL FINANCE COUNCIL DECISION

Included in the original consolidation discussion paper and invitation to comment was an outline of the Territorial Finance Council (TFC) decision with regards to the project. The 5 key elements of this decision are summarized below for information purposes:

1. Consolidated financial statements will first be prepared for the year ended March 31, 2009...
2. The Shelby Web system has been approved as the territorial standard accounting system for all ministry units that perform their own accounting functions...
3. A territorial chart of accounts is to be established for all units for Salvation Army reporting purposes by April 1, 2008.
4. A single public accounting firm will be engaged to conduct all required external audits of Salvation Army entities, effective for the fiscal year ending March 31, 2008. The firm of KPMG, LLP, Chartered Accountants, has been engaged to conduct all external audits in the Territory for the next few years...
5. ... the Territory will provide a grant to small ministry units (GSU) with a budget of up to \$300,000 to help offset the costs of regional accounting centre fees. This will result in free RAC services for units with a budget of up to \$100,000 and a reduced fee for units with a budget between \$100,000 and \$300,000.

PROJECT TIME FRAME

Also Included in the original consolidation discussion paper and invitation to comment was a brief history of the consolidation project, as well as a time frame for the completion of the first territorially consolidated financial statements. The time frame is repeated below for information purposes:

Target Event	Date
1. Audit readiness guidelines issued	Sep 2007
2. Conversion of local Shelby users to Shelby Web	Sep 2007
3. KPMG to be retained as external auditor of all units	Mar 2008
4. Conversion of remaining units to Shelby Web*	Apr 2008
5. Trial consolidation for audit purposes	Mar 2009
6. Full consolidation	Mar 2010

* with specified exceptions.

RESPONSE SUMMARY

The second invitation to comment included 6 specific questions. There were a total of 25 respondents (9 divisional finance boards, 6 employees, 8 officers, 1 committee and 1 cadet). A summary of their responses is provided below:

Question (1) Shelby Web is the new platform that is currently being introduced for ministry units to access their data over the internet. An internet connection is required... Are there any ministry units that you are aware of that might have difficulty in converting to the Shelby Web platform by the published deadline?... **Responses:** There were 11 responses to this question, with 8 indicating no difficulties were anticipated, 1 indicating some minor difficulties were anticipated, and 2 indicating that some major difficulties were anticipated.

Question (2) Are there any ministry units that you are aware of that might have difficulty in switching to KPMG as their external auditor?... **Responses:** There were 14 responses to this question, with 2 indicating no difficulties were anticipated, 6 indicating some minor difficulties were anticipated and 6 indicating some major difficulties were anticipated.

Question (3) A standard chart of accounts currently exists, and is published in the Territorial Finance Manual (TFM). Are there any ministry units that you are aware of that are not using this standard chart?... **Responses:** There were 19 responses to this question, with 12 indicating that they were already in full compliance or would have no difficulties in converting, 7 indicating current non-compliance with some minor

difficulties in converting, and zero indicating they would have major difficulties in converting.

Question (4) What steps would you like to see the Finance Department take in order to ensure a successful project completion?... **Responses:** There were 22 responses to this question, with suggestions ranging from “nothing in particular” required, to a series of on-site seminars and workbooks.

Question (5) As territorially consolidated financial statements require each ministry unit to consolidate their local data first, are there any ministry units that you are aware of that would have difficulty in completing this task?... **Responses:** There were 13 responses to this question with 8 indicating that there would be no difficulty with this task, 4 indicating that there would be some minor difficulties that could be reasonably overcome, and 1 indicating that there would be major difficulties.

Question (6) Other than the consolidation of local data, what are some of the other challenges your ministry unit has (or that you have heard about) related to consolidated financial statement preparation?... **Responses:** There were 9 responses to this question, with issues ranging from “nothing” to a severe labour shortage and resulting workload stress.

Further information and clarification is provided on these and other issues raised in the second discussion paper, throughout the remainder of this document.

ANSWERS TO COMMONLY ASKED QUESTIONS

Q1. What does the consolidation process require of local ministry units?

Policy Compliance - In order for the territory and the external auditors to be fully confident with the financial numbers presented in our published financial statements, all ministry units must follow the same standard policies and procedures with regards to financial record keeping. As such, policy compliance (including the use of the standard chart of accounts) is crucial, and must be adhered to universally throughout the territory.

Timeliness - In order for the territorial financial statements to be relevant and meaningful, the information must be published in a timely manner. As such, adherence to the consolidation project deadlines, including the monthly, quarterly and year-end deadlines for ministry unit reporting, is very important.

Polices and Procedures - In order that all financial data conforms to Generally Accepted Accounting Principles (GAAP) and other government regulations, there may, from time to time, be a requirement for changes to Salvation Army accounting polices. The Territorial Finance Department will communicate such changes, and all ministry units will be required to adopt and implement those changes, in accordance with the effective dates established. One such example of a policy change is the requirement that Corps start capitalizing their fixed assets in accordance with Salvation Army policy as stated in the Territorial Finance Manual (TFM) section 0608 (in the past, Corps were not required to capitalize fixed assets).

Shelby Consolidated Reports - For those ministry units that use the Shelby Web platform or have their accounting performed by a Regional Accounting Centre (RAC), there is no requirement for any additional reporting. These units can continue their processing as they have in the past, and as long as Salvation Army accounting policies and standards are being adhered to, no additional work is required. For those units that use a local version of the Shelby software, a monthly consolidated financial statement must be produced and submitted to the Territorial Finance Department (your divisional headquarters may also require a copy of this statement). This report must be submitted electronically in PDF format. For more information on how to produce a consolidated financial statement, refer to the Territorial Finance Manual (TFM) section 011104.

Q2. How is consolidation processed at Territorial Headquarters?

The consolidation of financial data is performed by the Territorial Finance Department. Finance Department staff will collect data from the various consolidated reports received from those ministry units that use a local version of the Shelby software and

import the account balances into Shelby Web. A consolidation routine is then run on the Shelby Web server, which calculates the consolidated figures. This routine uses account balances only; no detail information is accessed during this process.

Q3. Are eliminating entries required?

All of the required eliminating entries will be performed by Territorial Finance Department staff. The standard chart of accounts (as published in the Territorial Finance Manual) is under going some revision so that ministry units will not be required to draft or process any eliminating entries as part of the consolidation project. Units that wish to do so may post eliminating entries on their own, but the standard chart of accounts must be used for these and all other General Ledger transactions.

Q4. Are inter-company transfers allowed?

By inter-company transfers, we are referring to the transfer of funds from one Salvation Army entity to another (such as from one corps to another, or between sections/departments within a single ministry unit). So yes, such inter-company transactions will be inevitable within our organization. The standard chart of accounts and other accounting policies (as published in the Territorial Finance Manual) are under going some revision so that such transfers will be accommodated in a manner which minimizes the need for eliminating entries, and at the same time avoids the overstating of income or expenses for any particular ministry unit.

Q5. Are we required to use KPMG as our auditors?

Yes. KPMG, LLP, Chartered Accountants, has been engaged as the single audit firm to conduct all external audits effective for the fiscal year ending March 31, 2008. A number of ministry units have already converted their external audits to KPMG, so the remaining external audits will be converted over the next several months, and those ministry units affected should start to plan for this. In those areas of the country where KPMG does not have a local office, arrangements will be made to ensure that KPMG has the necessary audit results to allow them to incorporate that ministry unit into the territorial statements. The exact method by which this will be accomplished has not yet been determined, so more information on this question will be communicated by the Finance Department in due course.

Q6. Will the GL account structure be flexible?

Yes, the standard chart of accounts, as published in the Territorial Finance Manual, allows for significant flexibility in the establishment of accounts. While there will be some revisions to the current chart (these will be communicated in due course), the

concept of using a 6 digit account number with the first 4 digits representing the root account number will continue. Users will still be able to create specific accounts that they required by adding account numbers in the appropriate range that end in digits other than "00". Flexibility will remain, as long as the user adheres to the standard ranges of account numbers. We are confident that the standard chart of accounts will accommodate all of our ministry units. We encourage those ministry units that feel their needs will not be met by the standard chart to contact us.

Q7. Can we use the same GL Department numbers we use now?

Yes, as long as the standards published in section 2 of the Territorial Finance Manual are adhered to. The TFM includes standard ranges of department numbers, and ministry units are free to use numbers within these ranges. Significant flexibility is available in the chart by using these standard numbers in conjunction with Shelby's department reporting capability.

Q8. Are we required to use the services of a RAC?

No. The intention of the consolidation project is not to force any ministry unit to contract with a Regional Accounting Centre (RAC). However, many units will find it advantageous to do so, particularly those smaller units with an annual operating budget of \$100,000 or less.

Ministry units that currently have their accounting done by staff or volunteers that are able to adequately meet the consolidation deadlines and comply with Salvation Army policies will find that the consolidation project will have little impact on the work load involved. Those units that are unable to meet the deadlines or whose staff are unable to comply with policies and standards will need to consider corrective action, such as contracting with a RAC, upgrading the education/training of their staff or staff replacement.

Q9. What fees do the RACs charge?

The Regional Accounting Centres charge a tiered fee for service based on a ministry unit's annual budgeted gross revenues, billed out on a monthly basis. The fee rates are as follows:

- 1.5% for budgets up to \$3 million
- 1.0% of the portion of the budget between \$3million and \$6 million
- 0.5% of the portion of the budget that exceeds \$6 million

Q10. What is the “Grant to Small Units”?

The Grant to Small Units (GSM) is a subsidy provided by the Territorial Finance Council to assist smaller units who chose to have their accounting done by a Regional Accounting Centre. The grant will be applied automatically to those units that qualify, so no application process is required. The total expense for the RAC fees will still be recorded on the ministry unit’s books, as will the grant income. The grant is equal to the qualifying ministry unit’s RAC fees, up to a maximum of \$1,500 per year. To qualify, ministry units must have an annual consolidated revenue budget of less than \$300,000 and have contracted with a RAC for accounting services.

The end result is that ministry units with a consolidated revenue budget of up to \$100,000 will have the grant equal the RAC fees for a net cost of zero (the RAC services will in effect be provided for free). Ministry units with a consolidated revenue budget of more than \$100,000 and less than \$300,000 will have their RAC fees reduced by the grant (for example, a ministry unit with a consolidated revenue budget of \$210,000 will have annual RAC fees charged of \$3,150 and will receive a grant of \$1,500 (the maximum) for a net RAC fee of only \$1,650).

Q11. Do I have to use the Shelby Web?

Yes. The Shelby software has been the approved standard accounting system for Corps units for the last several years. In order to make the consolidation process as efficient as possible, it will be necessary for all other ministry units to adopt Shelby as well. The only exceptions will be for those units that are required by government act to use a specific, government appointed accounting system. The Shelby Web is the platform that has been approved as part of the consolidation project, and allows users to run the Shelby software over an internet connection. The following program modules are available on the Shelby Web server:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Bank Reconciliation
- Fixed Assets
- Purchase Order
- Receipting
- Membership
- Contributions
- Attendance

Interested parties can find out more about the Shelby company and software by visiting the Finance Department website at “www.salvationist.ca/Finance” or by visiting the Shelby Systems website at “www.shelbyinc.com”.

Q12. Can we still control user security on our Shelby database?

Yes. Local users will continue to use the “supervisor” logon account to access security for their Shelby Web databases. You can still add, delete or modify user access to the database as you have in the past (such access can be full access, read only access or no access to various functions within each module, or the module itself).

Q13. Who will have access to our Shelby database?

Local users will have access to their Shelby Web database as assigned by their Shelby “supervisor” (whoever that may be). Territorial Finance Department staff that require access for the purposes of consolidation will have inquiry access to the General Ledger module. The Internal Audit group will have access as required by territorial policy.

Q14. How is our Shelby Web data backed up?

The Information Technology Department (IT) has the responsibility for all of the servers and data hosted by Territorial Headquarters. IT employees a number of techniques to secure, protect and back-up data on our servers. Back-up of the Shelby Web databases is done on a daily basis, following a well documented and controlled procedure (including virus scanning and protection, off-site storage, backup tape rotation, etc.).

Ministry units can be confident that their Shelby Web data is secure and well protected, much more so than what would be possible on most local computers.

Q15. How are payroll expenses recorded on Shelby Web?

The Canada & Bermuda Territory has an official policy on payroll processing and human resource management, and as such, no attempt has been made to customize the Shelby payroll module for the Canadian environment. Ministry units that contract with a Regional Accounting Centre (RAC) will have their payroll processed by either the RAC or the THQ payroll groups, with the appropriate payroll expenses recorded as part of that process. Non RAC clients who perform their own accounting on Shelby but have their payroll processed by either a RAC or the THQ payroll group will receive a payroll debit advice report, from which they can draft and post their payroll expenses (processing these entries via the recurring journal entry feature can save a substantial amount of time each pay cycle). Ministry units that use a local payroll program or a 3rd party payroll service provider may be able to import the payroll entries into Shelby Web. Users can find out more about this importing option by contacting the Finance Department.

Q16. What reporting features does Shelby Web have?

The Shelby software comes standard with a number of General Ledger reports, accessed by users through the program's menu system. The reports are very straight forward to run and require little or no training. The Balance Sheet and the Budgeted Financial Statement (BFS) are the two standard reports that ministry units submit to their divisional headquarters. Users can also send reports to the various departments or sections within their ministry unit, such as a departmental Budgeted Financial Statement (as well as several other types of reports). Transactional listings can also be printed from the GL inquiry screen, allowing for quick research and reference. Advanced users can develop customized reports by using Shelby's "Special Reports" feature (which allows for accounts to be consolidated, printed or summarized in any order or in any grouping). All reports are viewed to screen, with options to print them to paper, to save them as CSV files, or to create searchable PDF documents.

Q17. How do I access Shelby Web?

We use the term "Shelby Web" to refer to the platform we have adopted, which runs the Shelby software on a Microsoft Terminal Server. As such, the Shelby software can be accessed via any computer with an internet connection. A "Terminal Services" logon account is required to gain access to the Shelby Web server (and this forms part of the security aspect of the system) as well as a Shelby logon account to gain access to the Shelby database. The Information Technology Department manages the Terminal Services logon account and the local ministry unit supervisor manages the logon account for the Shelby database.

Q18. Can I access Shelby Web using a dial-in connection?

Yes. While a high-speed (or a high-speed "lite") connection is recommended, a number of tests have been conducted which indicates that a dial-in connection is adequate for using the Shelby Web system. When using a dial-up connection, the initial Terminal Services logon process can take a few minutes, but once a user has logged onto the Shelby database, performance is very acceptable. Results can vary depending on the performance and reliability of the connection and the local Internet Service Provider (ISP). Some ministry units that do not yet have access to a high-speed internet connection may find investing in a second telephone line to be worthwhile. Other units that have very limited need for internet access may find this unnecessary. With the growing popularity and use of the internet as a means of data sharing, communication and electronic commerce, we are confident that competition will soon provide options for even the more remote areas where a high-speed internet connection is not yet available.

Q19. What kind of internet performance can I expect?

The performance of any particular internet connection depends on a number of factors. The performance and reliability of the connection and the local Internet Service Provider (ISP) has a large bearing on each internet session. Overall internet activity during “peak” times can also affect the internet’s performance, as can internet traffic at THQ and through THQ’s internet bandwidth. At times, different internet service providers will experience difficulties in relaying traffic over the internet, and this may affect users in certain geographic areas more than others. In addition, the performance of the local computer being used to access the internet, as well as the number and type of programs that are being run at the same time as accessing Shelby Web (such as stay resident programs like MS Messenger or Yahoo Messenger) will have some impact on the overall performance of an internet connection.

Q20. How does Shelby Web perform over the internet?

For the vast majority of users, the Shelby Web system will perform as well as or better than what the user would experience if running the software locally on a typical 2 year old computer. For those units with a dial-in connection, performance when using the actual Shelby database will be close to the performance what the user would experience if running the software locally on a typical 2 year old computer (the initial Terminal Services logon process is the slowest link in the access chain of events). In all cases, the performance will be better than what a user would experience if running the software locally on a typical 4 year old computer.

Q21. Do I have to change my bank when converting to Shelby Web?

No. The consolidation project and the conversion to the Shelby Web system will have no effect on a ministry unit’s banking arrangements. For the most efficient set-up, we recommend that ministry units with multiple bank accounts consider closing and combining accounts where ever possible, as the Shelby software will be able to record transactions for multiple sections, departments or groups within a ministry unit using a single bank account.

For more information on Shelby, visit our website at “www.salvationist.ca/Finance” or the Shelby Systems website at “www.shelbyinc.com”.

To plan for your conversion to the Shelby Web system or to KPMG, talk to your Divisional Secretary for Business Administration.

