ISSUE
09
FEBRUARY 9, 2011

Money & Mission

this issue

Editorial

Most readers will be aware of the territorial guideline that all Salvation Army entities should hold reserves sufficient to maintain operations for at least three months. For example, if your monthly expenditures are $100,000, you should have unrestricted funds of at least $300,000 to maintain your operation, in the event of a sudden drop in your income.

Based on financial results for the year ended March 31, 2010, 52% of our ministry units have sufficient reserves to meet the territorial guideline. Another 12% have negative fund balances which mean their liabilities exceed their assets; these ministries are relying on borrowed funds to sustain their operations. The remaining 36% have some reserves, but not sufficient to sustain three month's operations.

Do you know where your ministry unit stands? If you do not yet meet the territorial target, do you have a plan to get there over the next few years? Having adequate reserves is a sign of a financially viable operation. Does that describe your ministry unit?

Change in Accounting for Property Maintenance Accounts

In preparation for consolidation, we have made significant changes to the accounting for property maintenance accounts (PMAs). Historically, ministry units have expensed their contributions to PMAs. Subsequently, expenditures paid from a PMA were not recorded in their financial statements. This method of accounting originated because ministry units were considered tenants of buildings owned by THQ. Contributions to PMAs were treated as rent and it was THQ, as landlord, which paid property taxes, insurance, and built up reserves for maintenance and repairs.

Over time, that philosophy has changed. Ministry units are now considered responsible for their buildings. Until recently, however, accounting had not been changed to reflect the current reality - that the PMA is really a reserve established by ministry units to fund major building related expenditures when they occur.

The new accounting treatment requires ministry units to treat contributions to PMAs as transfers from the general to the restricted fund. Subsequently, when a unit funds expenditures from a PMA, it should record the related expense in the general fund, with an offsetting transfer from the restricted fund.

For more information, including sample journal entries, see the Ministry Unit Preparation Guide, Part II, which can be downloaded from http://salvationist.ca/wp-content/uploads/2009/02/Year-End-Closing-and-Reporting-Deadlines-for-Ministry-Units.pdf

Did You Know?

A grant is available to small ministry units to help meet the costs of regional accounting services provided by the finance department. Fees are charged based on 1.5% of your operating budget for ministry units with budgets up to $300,000 per year. The grant is 1.5% of the budget up to maximum of $1,500. This means that if your ministry has a budget of up to $100,000, the grant will completely offset the fees, and your net costs are zero. Between $100,001 and $300,000, the grant is $1,500. Let's say your ministry has a budget of $250,000. The total cost for regional accounting services would be $3,750 per year. The grant would be $1,500, bringing your net costs to only $2,250.

Expenditure Authority versus Payment Authority

Do you understand the difference between expenditure authority and payment authority? Do you know why the difference is important? This article provides the answers and serves as reminder of the accountability that comes with expenditure authority.

The person with expenditure authority approves expenditures, either by giving approval prior to purchases being made or by approving invoices submitted for payment. The person who issues cheques or other forms of payment is the payment authority.

In some circumstances, a person may have authority for both expenditures and payments. In a corps, for example, the corps treasurer may give his/her approval to a purchase and also be one of the signatories on the cheque.

Today, however, in most cases the roles are segregated. Expenditures are approved by an executive director, corps officer, or other designated person while accounts payable are processed by a staff member such as a bookkeeper or a third party contractor, such as one of the finance department's regional accounting groups. The individuals who process accounts payable do not have the authority to incur expenditures on behalf of the ministry unit.

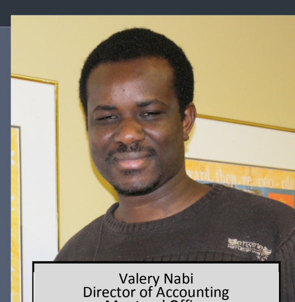
By virtue of their positions, individuals with expenditure authority have the right to determine whether or not a particular expenditure is appropriate. By approving invoices for payment, the expenditure authority is validating the expense and certifying that the supporting documentation substantiates it. The expenditure authority must ensure that the proposed expenditure complies with applicable legislation and organizational policies.

Individuals with payment authority do not authorize expenditures; rather, their job is to ensure that payments are processed properly, in accordance with all applicable legislation. For example, they withhold appropriate payroll taxes from employees' wages. While the expenditure authority decides that it is appropriate to pay the wages, the payment authority determines how to make the payment to comply with the law.

Generally, a payment authority does not have a say in whether an expenditure should be made, even if it appears unnecessary or inappropriate. It is not the payment authority's role to question the wisdom of a particular expenditure, as long as it can be paid legally. There is one caveat, however. A proposed payment may be so significantly out of line with Salvation Army policy and values that any reasonable person would think it was inappropriate. In such a case, the payment authority should confirm with the expenditure authority that it is a valid, approved expenditure. Ultimately, however, the expenditure authority is accountable for expenditures, including those that violate Army policy and values.

Who's Who

VALERY NABI is director of accounting in the finance department's Montreal office. Born and raised in Ouagadougou, Burkina Faso, in western Africa, Valery holds a bachelor of science degree and is a certified management accountant. He and his wife, Nicole, are expecting their first child.



Valery Nabi
Director of Accounting
Montreal Office

Key Requirements for Consolidation

This article reviews the key requirements of ministry units which perform their own accounting.

Timeliness – Follow the deadlines for the consolidation project. Timely publication of results will ensure that territorial financial statements are relevant and meaningful.

Account reconciliations –Ensure that you know your balance sheet intimately. Perform account reconciliations on a monthly basis, without exception. Clear any outstanding items on the reconciliations in a timely manner.

Inter-company reconciliations – Reconcile balances in intercompany accounts with those recorded by the related party. Examples include deposit accounts held with THQ, property maintenance accounts held with DHQ and accounts payable to THQ or DHQ. Record income such as DHQ grants (Red Shield, legacies, congregational grants, etc) in a timely manner and tie to the amounts allocated by headquarters.

Policies and Procedures – comply with territorial policy (including the use of the standard chart of accounts) and Generally Accepted Accounting Principles (GAAP). We must assure our auditors and other stakeholders that our consolidated statements are based on standard accounting policies and procedures.

From time to time, there may be changes to internal policies or GAAP. The finance department will notify you of changes and when they are effective. Make sure that you implement these changes by the established deadline.

Giving Hope Today

Money & Mission

A publication of the Finance Department, The Salvation Army Canada & Bermuda

Issue 9, February 9, 2011

Comments, Suggestions?

Do you have comments on any of the topics raised in this issue, or suggestions for a future issue? Write to us at: **Money&Mission@can.salvationarmy.org**.

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