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Money & Mission

this issue

Did You Know?

Paying someone by cheque can cost 5 times as much as an electronic payment. A recent study by the finance department found that the cost of a business cheque was $5, compared to $1 for an electronic deposit. The analysis factored in all costs, including preparation, cheque stock, postage, bank fees and reconciliation. In 2010, the Army as a whole wrote over 150,000 cheques. If all of these were converted to electronic deposits, it would mean a savings of over $600,000. Apart from the cost savings, electronic payments are more reliable and secure than cheques. If you are not using electronic payments, please contact thq_treasury@can.salvationarmy.org to learn more.

Editorial

Happy New Year! The brief holiday respite is over, and it's back to the routine of everyday life. But this will not be a routine year from a financial management perspective. Let me tell you about three developments that will make this year so exciting for us.

First, we are now in the final countdown to consolidated financial statements. This year, we will be incorporating the financial results of ministry units for the very first time. Let me say a huge "thank you" to all of you who are cooperating to ensure that our books are kept in accordance with Canadian accounting standards and territorial policies, and that they are closed in time to allow us to do the work of consolidation.

Second, the CRA has announced a revised T3010 return, which eliminates the disbursement quota. The CRA will issue new forms and guidelines later this month. Shortly after we have completed consolidated statements, the finance department will determine whether we can produce a single T3010 for the entire territory, rather than separate ones for each ministry unit. This would greatly simplify and reduce the work now undertaken and would help us present a better picture of the Army's financials to the public through the CRA website.

Third, one of the byproducts of consolidation is that the finance department can conduct more analysis of the financial performance of ministry units than ever before. We can share the results with ministry unit leaders and divisional staff to help manage operations more effectively. For example, we will be developing some key financial indicators across various types of ministry units. These will allow you to compare your unit with others. Stay tuned for more on this project in future issues.

Accounting for Loans & Mortgages

As a general rule, loans and mortgages to finance capital assets should not appear as liabilities on the financial statements of a ministry unit, unless the related capital assets also appear on the ministry unit's statements. In most cases, land and buildings are reported on the books of territorial headquarters, rather than on the ministry unit's books. As a result, any related debt financing will also appear on the books of territorial headquarters. Ministry units that are making payments on debt to finance capital assets will normally expense the total payment (both principal and interest portion).

Loans for operating purposes or to finance the acquisition of capital assets carried on the books of the ministry unit are handled in a different manner. In this case, the total loan amount should be set up as a liability when the financing is received. The interest portion of payments made to service the debt must be recorded as an expense while the principal portion reduces the liability.

For more information, refer to the finance department's Ministry Unit Preparation Guide – Part 2, which can be downloaded from http://salvationist.ca/departments/finance/consolidated-statements/.

External Audit Update: KPMG's External Audit for Fiscal 2011

If you are with a ministry unit requiring an external audit, please take careful note of the following actions and timelines. They are critical to a successful audit and consolidation. We thank you in advance for your adherence to this process.

Centralized engagement letter

- Once again, territorial headquarters will issue one engagement letter to cover all KPMG audits across the territory. You will not be required to issue a separate letter.

Timeline

- All external audits must be completed by May 31, 2011. This is a critical date in order for us to incorporate your final audited results into the territory's consolidated financial statements.
- Your audit will commence on or around Monday, May 2, 2011. Your local KPMG auditors will contact you to confirm exact timing.

Audit readiness

- Before your audit commences, please ensure that your financial records are "audit ready" (i.e. you have prepared your financial statements with supplementary note disclosure, completed all reconciliations, booked all accruals, etc.). If there are any delays, you may be liable for extra audit fees from KPMG.
- If you are a client of one of the finance department's regional offices, its staff will complete your financial statements and reconciliations. The audit will be performed at our regional office. However, KPMG may contact you with questions relating to your operations. If this happens, please respond promptly.

Estimated Fees

- We will shortly be communicating the base audit fee for fiscal 2011.
- Please be sure to accrue this amount in your March 31, 2011 financial statements. Please note that the base fee covers audit work only and does **not** include administrative expenses, financial statement preparation (if KPMG prepares your statements) completion of government schedules and so forth.
- Your local KPMG office will bill you **directly.** It will be your responsibility to remit payment for the invoice.
- If KPMG is required to do any extra work, please ensure that you discuss this fully and negotiate the fees with KPMG beforehand. Any disagreements on extra billing will have to be resolved between you and KPMG.

Audit conclusion

- At the conclusion of the audits, your Executive Director must sign a representation letter. If your unit is a client of one of the finance department's regional offices, its Director will sign this letter on your behalf.

Who's Who

CHRISTOPHER TUK, a certified general accountant, is director of accounting in the finance department's Winnipeg office. Hired as assistant director when the office opened in 1998, he was promoted to director in 1999. In his role, Christopher oversees the accounting for ministry units in Manitoba, Saskatchewan, and northwestern Ontario. A life-long Winnipegger, Christopher is married with two school-aged daughters.

Christopher Tuk
Director of Accounting
Winnipeg Office

Budgets…Simply Another Bureaucratic Exercise?

If you are responsible for preparing the budget for your ministry unit, you're probably up to your eyeballs in that exercise right about now. If not, you will be very soon. Some people regard the budget exercise as simply another bureaucratic requirement to satisfy head office. Hopefully, you're not one of them.

Of course, we understand that not everyone enjoys the detailed analysis and calculations that go into producing the budget. At times, it can be difficult to project what's going to happen tomorrow, never mind months from now. Once you get over that, however, the budget exercise can be very useful, not only to satisfy DHQ and THQ, but in your own planning for the year ahead.

You see, if done correctly, the budget is the quantification of your plans for your unit. What are you planning to do this year? What are your key objectives for your ministry or service delivery? Does the budget provide adequate resources to carry out your plans? If not, you may need to rethink your plans, either in terms of the costs to accomplish your objectives, or the income you will secure to cover those costs.

Is yours a mission budget or a maintenance budget? Are you just getting by and covering the costs of simply keeping the doors open, or are you delivering on the commitment inherent in your mission statement?

Does the budget allocate resources to things that are not delivering the "bang for your buck" in terms of mission outcomes? If so, can you eliminate them in order to free up resources that are needed for mission critical activities?

If you are not already doing so, take some time to reflect on these questions. Your budget prep may take on a whole new meaning this year.

Giving Hope Today

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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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