



**THE SALVATION ARMY
CANADA & BERMUDA**

TERRITORIAL CONSOLIDATION
YEAR END PROCESS - March 31, 2011

Introduction and Purpose

The fiscal year ending March 31, 2011 will mark the first year consolidated financial statements are issued for The Salvation Army Canada and Bermuda Territory. Apart from government, the Army's consolidation process is expected to be one of the largest in Canada. For the first time, public donors will have an accurate and complete picture of the work and ministry of The Salvation Army. A project of this magnitude cannot be completed without the hard work and dedication of many individuals throughout the organization. We thank you for your support.

This document will:

- a) describe the tasks and the timelines we must meet to issue consolidated financial statements,
- b) highlight some common consolidation and accounting issues,
- c) provide guidance and recommendations for the year end process.

We urge you to plan ahead and to have procedures in place at your ministry unit to meet the required tasks and deadlines.

Timeline

Consolidated financial statements need to be timely in order to be useful. Our deadline for issuing financial statements is early July, with approval by the Governing Council on June 30, 2011. Please follow the timelines in the attached document so we can meet our deadlines. Any delays in the schedule may cause serious setbacks.

Over the next couple of months, all ministry units must develop a plan for closing the year according to the attached schedule. If you have any concerns about this, please contact the consolidation team immediately, so we can assist you and ensure the deadlines are met.



Year end timeline.xls

Consolidation Issues

Standard Chart of Accounts

The consolidation process relies on accurate recording of ministry unit transactions, using the standard chart of accounts published in the Territorial Finance Manual. Account categories and groupings presented in the consolidated financial statements are based on this structure. It is vitally important that all ministry units adhere to the standard, ensuring all accounts are appropriately classed and

categorized. In particular:

- Ensure that the department numbers you assign comply with territorial standard i.e.
 - based on the program type , all operating departments range from 200-899 and
 - all restricted departments/funds fall in the 900-999 range.
- Verify all government funding is recorded in the income account range (611700-611799) including:
 - Lump sum government grants,
 - Per diem government funding,
 - Monthly reimbursements from the government,
 - Any payment received from the federal, provincial or municipal government.
- Make sure that the following are classed within the correct account ranges:
 - personnel,
 - general operating,
 - program,
 - equipment and property and
 - grant expenses.
- Record inter-company transactions in the designated accounts.

If you perform your own accounting, review your account structure to ensure all accounts are classified correctly in accordance with the standard chart of accounts in the Territorial Finance Manual, which is attached here for reference. Correct any mistakes before you close your fiscal year.



TFM Chart of
Accounts.pdf

Accounting Transactions

Vacation Accrual

The vacation accrual reflects an employer's liability with respect to employees' vacation entitlement. It must be recorded on the balance sheet throughout the year. In the past, many ministry units have not recorded this liability. To meet current accounting and consolidation standards, you must record this obligation in your financial statements for the fiscal year ending March 31, 2011.

The liability will be an estimate of the vacation earned by employees, but not yet paid as of March 31, 2011. To assist you with calculation of the accrual, we added two columns to the payroll worksheets, distributed as part of budget planning for 2011/2012. The column at the end of the worksheet labeled '*Accrual Vacation for March 2011*' will provide you with the total amount to record at March 31, 2011.

If your ministry unit has a union contract with vacation entitlement which differs significantly from territorial policy, you may need to review the contract's terms to calculate the appropriate liability at year end.

Detailed instructions on how to record vacation liability can be found in the *Ministry Unit Preparation Guide – Part I*, posted at the following web address:

http://salvationist.ca/docs/finance/Consolidation_MU_Prep_Guide_Part1.pdf

Other Accruals

Prior to closing the general ledger, ensure appropriate accruals have been made for expenses and revenues. That is, ensure all revenue and expenses have been recorded if they have been earned or incurred, no matter when the cash was received or paid. Detailed guidelines for accruals can be found in the *Ministry Unit Preparation Guide – Part I* (link above).

Posting to fund balance accounts

Direct postings to fund balance accounts (4xxxxx) must not occur at any time. Last year, we consolidated the territory's financial statements for the year ending March 31, 2010. The closing balances for 2010 must tie to the fund balances for the 2011 fiscal year. Please review your fund balance accounts to ensure that no postings have been made to them directly.

Capital Assets Review

It is important that you maintain a list of capital assets which have been recorded on your balance sheet. At any point in time, the capital asset value must reflect assets in service. If an asset has been disposed of or is no longer in service, it must be removed from the balance sheet. Please also ensure that the net book value of your fixed assets ties to the closing fund balance for invested in capital.

Intercompany Transactions

The consolidation of financial statements requires the elimination of:

1. all income received by a ministry unit from a related party and the corresponding expenses recorded by the related party (THQ, DHQ, other MU),
2. any internal receivables and payables,

Common examples of 1) and 2) above are:

- red shield allocations,
- DHQ/THQ grants,
- THQ/DHQ interest,
- MSA expenses and
- receivables or payables to THQ/DHQ.

Eliminating these transactions ensures the financial statements are not overstated. It is critical that you record intercompany transactions correctly as the consolidation team must reconcile each elimination entry. Posting transactions to the incorrect accounts will make reconciliation very difficult.

The attached spreadsheet describes all intercompany accounts and how to review them to ensure the balances are correct. Please review your intercompany accounts prior to closing the fiscal year.

To assist with the reconciliation of intercompany balances, there are to be no cheque payments between related parties (THQ, DHQ and ministry units) between March 25 and March 31, the last week of the fiscal year. This will help to ensure the amounts shown as receivable in one unit's books will match the payable shown in the related party's books. Without freezing payments, there would be many situations where the payable would be eliminated in March, but the offsetting receivable would not be eliminated until April, when the cheque is received and cashed by the related party.



Intercompany
Account Explanation.

Supporting Documentation

Funding and Lease Agreements

It is important that you maintain a file that contains ***ALL*** signed funding and lease agreements, including any subsequent revisions. Save any revisions received via email in a separate file and include with the original document. Avoid verbal agreements, as these are difficult to track. Your file must be current and provided to the auditors on the first day of field work. Non-audited ministry units must have this file on hand in case it is requested as part of the audit of the consolidated financial statements.

Accounting Records

All accounting records and supporting documentation (bank statements, invoices, receipts, audit reports, etc.) must be organized and filed at all times. If questions arise as part of your audit or the consolidation audit, **you should be able to** access the information easily and quickly.

Year End Closing - Checklist

Based on the consolidation team's review of ministry units, we have prepared a checklist to assist ministry units in avoiding common mistakes at year end. Please work through the list, ensuring that you have reviewed each item.



Year End Checklist.xls

Audited Units

If you are a client of one of the finance department's regional offices, the next three sections will be monitored and prepared by their staff. Remember that vacations should be avoided during the audit season as you may be required to answer specific questions related to your operation. All queries must be answered promptly to ensure that we meet the May 31 deadline for issuing final audited statements.

Audited Financial Statements

The consolidation team must review financial statements before they are issued as final. Once you receive final draft statements from the auditors, send them to David Dunstan (David_Dunstan@can.salvationarmy.org) and Irene Chan (Irene_Chan@can.salvationarmy.org), with a copy to the local auditor. You can issue final audited statements only after they are reviewed by the finance department and you make any recommended changes. Remember that all audited statements **must** be completed by **May 31, 2011**. Please target **May 27 or earlier** to send final draft statements to the finance department to allow time for their review.

Final audited statements issued from KPMG's offices will include two signatures from the Governing Council, so they can be sent to funding bodies immediately.

Financial Statement Notes

In previous years, the finance department has issued a standard notes template to assist with audit preparation. As there are few changes to the note disclosure for the 2010 fiscal year, there will be no template provided this year. You may develop your notes from the disclosures made last year. Your local auditors can provide you with a copy of the 2010 note disclosures in a Word document if you do not have them in an accessible format. Please contact your auditors now to obtain the file so that you can prepare the notes by March 31, 2011, prior to commencement of the audit.

Shelby Reconciliation

Once final statements are issued, a reconciliation must be performed to ensure figures reported in the audited financial statements tie to the account balances reported in Shelby. Any audit adjustments must be posted to Shelby no later than June 2, 2011. As part of the consolidation audit, KPMG will be verifying that numbers taken from Shelby for consolidation tie to the audited statements. Failure to enter audit adjustments will result in differences and may delay the issuance of the consolidated financial statements.

Need Assistance?

If you have any problems or have any questions regarding the year end process, please contact the consolidation team (THQ_Consolidation@can.salvationarmy.org). We will be pleased to provide you with clarification or assist you in any way we can.

Your cooperation and hard work in meeting these deadlines is much appreciated.