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Money & Mission

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Editorial

The Canada & Bermuda territory has adopted a number of principles with respect to the management of financial resources. One of the most important is transparency of financial information. This allows stakeholders to determine whether or not to make future contributions and provides evidence that we have managed past contributions well.

Unfortunately, there are still ministry units that are secretive about their financial information. Stakeholders are not told how we are doing, except when there are financial challenges and we want them to increase their giving. That's really not good enough. Those who manage financial resources have been entrusted with their stewardship; they need to demonstrate that they have managed that responsibility well.

If you are regularly sharing financial information with your congregation or other stakeholders, congratulations! You've already mastered the principle of transparency. If you aren't sharing financial information regularly, there's no time like the present to start.

Consolidation Update

Many of our financial transactions are between Army entities. The elimination of these intercompany transactions is a critical part of the consolidation process. It ensures that entries are not counted twice in our consolidated statements. This, in turn, avoids overstatement of our financial results. Eliminating entries will take place in the audit working papers, but will not appear in your financial statements.

Common examples of intercompany transactions are MSA payments, officer benefit levies, property insurance, Red Shield and legacy income allocations, deposit account interest and other grants and allocations to capital projects. Each of these has an account in the general ledger. It is extremely important that you use these accounts to record your intercompany transactions. Here's why.

When you use the correct intercompany accounts, the consolidation team can compare your results to those from DHQ and THQ to easily determine the appropriate eliminating entry. Otherwise, we must undertake a detailed and cumbersome reconciliation. Given the hundreds of financial statements to be consolidated, it would be a daunting task indeed if we had to do this for all ministry units!

The consolidation team will be completing all necessary eliminating entries. However, ministry units play an important role in the process. Your key responsibilities are outlined in our article for ministries that are not externally audited (issue #3 of *Money & Mission*). These steps apply to <u>all</u> ministry units that perform their own accounting. By following them, you will ensure that inter-company transactions and balances are recorded appropriately.

As we near completion of consolidation for the year ended March 31, 2011, we can see that ministry units are working diligently to comply with consolidation guidelines. Although there are still areas for improvement, we have made great progress in streamlining the consolidation process for future years. We thank you for your efforts and support.

Did You Know?

That 83% of the Army's soldiers live in territories that are dependent on the Partners in Mission (formerly Self Denial) Fund for their operations? That nine territories, including Canada & Bermuda, provide 90% of the funds needed to operate the Army in the rest of the world? That the Partners in Mission Appeal in Canada and Bermuda raised $1.9 million in 2010, only 7% more than it did in 1996? That during the same period, general inflation in Canada was 30%? Now, that is something to think about. Is your corps doing all it should to support the Army's work in the developing world?

Deposit Accounts

The Salvation Army has taken a centralized approach to investments. Rather than investing on their own, ministry units and divisions deposit surplus funds at territorial headquarters where funds are pooled and invested in the capital markets. An investment advisory committee of external volunteers oversees the Army's investments. The volunteers are highly experienced in the field and ensure that our funds are managed through a disciplined and rigorous process.

Interest rates paid to ministry units are tied to prevailing market rates for similar investment options. Any profits earned by territorial headquarters on the program are channeled back into The Salvation Army's operations. They help to cover administrative costs at territorial and divisional headquarters, as well as grants to ministry units and subsidies to territorial programs.

We have designed the accounts to give you as much choice and flexibility as possible. Ministry units can choose from a number of plans which offer different interest rates, terms and withdrawal flexibility.

Under current territorial accounting policies, deposit accounts must be recorded on the financial statements of ministry units. This is a significant change for those of you who were following a cash-based system of accounting. With the latter, you recognized expenses when you transferred funds to deposit accounts and income when you made withdrawals. Now, transfers between your bank account and deposit accounts are recorded only on your balance sheet. Refer to the Territorial Finance Manual, section 0115, for guidance on how to record deposit account balances and transactions to conform to the Army's revised policy.

Who's Who

PATRICIA DUNBAR, director of treasury in the finance department, has been employed by the Army since 2006. Her background in treasury, financial management and consulting in a variety of private and public sector organizations provided Patricia with the perfect background to spearhead the establishment of the Army's treasury group, manage the request for proposals process for banking services, and lead the transition of the Army's accounts to new bankers for the first time in 80 years. In her role, Patricia also negotiates long-term financing for large construction projects, plays a key role in the department's staff training and development programs, and serves as senior editor of *Money & Mission.* Patricia earned a Bachelor of Arts degree in Statistics from Leeds University (UK) and a Master of Business Administration degree from the University of Toronto. She is married and has two adult sons.

Patricia Dunbar
Director of Treasury

Income Tax Issues

Every time you make a payment to an individual, you need to consider its income tax consequences and your obligations for reporting as the payer. This is especially true if the person you are paying is an officer or employee, but there are situations when payments to other individuals have tax consequences, too.

Payments to employees or officers are virtually always taxable and must be reported on a T4 or T4A. Refunds for legitimate business expenses are the exception, if they have been incurred on your behalf and appropriately documented. A T4A is issued when the work or services provided is unrelated to the person's normal job and he or she controls the work and provides his/her own tools. In all other cases, income is reported on the officer or employee's T4.

If you pay a resident of Canada, other than an officer or employee, for services rendered, you must issue a T4A for payments of $500 or more in a calendar year. You need not deduct any withholding taxes at source. This includes honorariums and grants of any kind.

If you are paying a non-resident of Canada, you may have to issue a T4A-NR and withhold non-resident taxes at source. Check with the finance department to obtain the right advice for your specific situation.

The rules for gifts and awards given to employees and officers have been recently clarified by the Canada Revenue Agency. Any gift or award (including a Christmas bonus) is taxable if it is in the form of cash or near-cash (e.g. securities, gift cards, points that can be redeemed for merchandise or travel, etc.).

Fortunately, there is no limit on the number of non-cash gifts and awards that may be given per year, provided the total value does not exceed $500. In addition, once every five years, an employer may provide a service recognition gift of less than $500 without having to declare a taxable benefit. Note, however, that if an employee purchases the gift herself and submits the receipt for reimbursement, it is considered a cash gift and, therefore, taxable.

For more information, see the Canada Revenue Agency web site, http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/menu-eng.html.

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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