

COMMUNITY LITERACY OF ONTARIO FINANCIAL MANAGEMENT E-COMMUNIQUE – OCTOBER 2012

Community Literacy of Ontario thought that we should revisit one of the pillars of good board governance: financial management. This topic is as important as ever, in this time of program scrutiny and ongoing change. Who is responsible for financial management? What do we mean when we say accountability? How can we ensure transparency? What are some good standard policies? Where can we find out more about this topic?

These are timely questions, so we culled through some of CLO's existing resources and explored some new sources to find answers to these questions and ultimately to help your agency to meet funder and government expectations.

Funder Expectations

It is of paramount importance to meet the financial requirements and expectations of your funder. Visit the Employment Ontario Partner Gateway (EOPG) website, www.tcu.gov.on.ca/eng/eopg/ regularly to look for new postings. In August 2012, the Ministry of Training, Colleges and Universities posted a revised *Audit and Accountability Requirements for Literacy and Basic Skills Service Providers* resource for the period of April 1, 2012 to March 31, 2013 on the EOPG. To access this resource, visit www.tcu.gov.on.ca/eng/eopg/publications/2012-2013_lbs_sp_aar_requirements.doc

For agencies who obtain funding from sources other than the Ministry of Training, Colleges and Universities, it is critical to ensure that you meet the obligations of those funders as well. Meeting the financial obligations of all funders will not only increase the likelihood of receiving funding from those sources again but will also maintain your agency reputation when applying for other new sources of revenue.

Board Governance

The board of directors of an incorporated, non-profit organization is legally responsible for the governance of the organization. Within that mandate is the expectation that the board will develop, implement and monitor policies that will allow the organization to carry out its work. A board is elected by, and accountable to, its membership. While a board may appoint staff and/or committees to carry out specific work related to its policies, programs and services, the board is ultimately responsible for ensuring that proper financial management occurs.

With regards to financial management, directors should ensure:

- Auditors are appointed annually and audit reports are reviewed thoroughly
- Finance committees are in place and financial reports are provided and reviewed regularly
- Safeguards are in place for financial resources, including banking and back-ups of financial reporting documents
- Policies are in place and monitored that are related, but not limited to, investing, use of credit cards, signing authorities and fundraising
- They are knowledgeable about revenues and costs of the organization

Sample Policies from Community Literacy of Ontario

The following policies have been taken directly from CLO's Financial Policies and are intended as samples that can be used and/or adapted for use in your own agencies. Naturally, these are only a few of CLO's policies and are intended only to get your creative juices flowing.

Policy – Financial Accountability – Board of Directors

The Board of Directors is responsible for ensuring the overall financial stability of Community Literacy of Ontario.

Procedures

- ❑ The Board of Directors will establish a budgeting process and financial reporting system for CLO.
- ❑ The Board of Directors will ensure that the financial policies and procedures are established and adhered to.
- ❑ The Board of Directors will approve all budgets (annual operating and projects).
- ❑ The Board of Directors will monitor and approve expenditures with limits as outlined in the Operating Procedures.
- ❑ The Board of Directors will review revenue and expenses on a regular basis and compare them with the approved budget.
- ❑ The Board of Directors is responsible for ensuring that the physical and financial assets of the organization are properly managed.
- ❑ The Board of Directors will approve salary guidelines and compensation policy for the Executive Director/Co-Executive Directors and on approved overall project budgets for other core and contract staff. Budgetary constraints will be given due consideration in this decision.

- ❑ The Board of Directors will not allow any one individual to have complete authority over a financial transaction.
- ❑ The Board of Directors will not cause or allow CLO to incur indebtedness outside of the provisions stated in the bylaws.

Policy – Financial Accountability - Treasurer

Community Literacy of Ontario will appoint a Treasurer to assist the Board of Directors in their function of financial governance. A Finance Committee will assist the Treasurer.

Procedures

- ❑ The Treasurer and/or Finance Committee will meet on a regular basis as specified by the Board of Directors.
- ❑ The Executive Director / Co-Executive Directors or his/her designate shall attend all meetings of the Finance Committee and/or Treasurer as a resource.
- ❑ The annual work plan of the Treasurer and/or Finance Committee will include the following:
 - *review of financial policies and procedures*
 - *review of annual operating budget quarterly*
 - *review of the financial statements*
 - *review of financial reporting process*

Policy – Financial Accountability – Executive Director / Co-Executive Directors

The Executive Director / Co-Executive Directors is responsible for effective financial management to ensure a stable and viable organization.

Procedures

- ❑ With regard to all financial dealings and the assets of CLO, the Executive Director / Co-Executive Directors will not authorize any transactions that will result in any personal liability of the Board of Directors or that will adversely affect the capital and assets of our corporation.
- ❑ The Executive Director / Co-Executive Directors will ensure that payroll, payroll withholdings, employer contributions and other debts are settled in a timely manner.
- ❑ The Executive Director / Co-Executive Directors will ensure that assets are insured for not less than replacement value (subject to available coverage limit).
- ❑ The Executive Director / Co-Executive Directors will ensure that CLO's general liability coverage does not lapse.

- ❑ The Executive Director / Co-Executive Directors will ensure that contributions or funds are used only for the purpose that was designated by the contributor or funder.
- ❑ The Executive Director / Co-Executive Directors will ensure that CLO does not accumulate a deficit.
- ❑ The Executive Director / Co-Executive Directors will initiate purchases of goods and services according to budget allocations. The Executive Director / Co-Executive Directors can exceed budget allocations without board permission up to the amount of \$1,000 for the life of the budget as long as the overall budget is not exceeded.

Policy – Financial Controls – Annual Budget Review

Community Literacy of Ontario’s budgets (annual operating and projects) will be developed by the Executive Director / Co-Executive Directors, reviewed with the Treasurer and/or Finance Committee, and approved by the Board of Directors.

Procedures

- ❑ The Executive Director / Co-Executive Directors will prepare budgets based on the priorities established by the Board of Directors.
- ❑ The Executive Director / Co-Executive Directors will prepare budgets in consultation with the Treasurer and/or Finance Committee.
- ❑ The Board of Directors will approve all budgets (annual operating and projects). Approval will be noted in the meeting minutes of the Board of Directors.
- ❑ The Board of Directors will review budget information quarterly ensuring that budget allocations and spending limits are adhered to.
- ❑ The Board of Directors will monitor all budgets and make adjustments if required.
- ❑ The Executive Director/Co-Executive Directors will revise CLO’s operating budget as required and bring changes to the CLO Board of Directors for approval.
- ❑ The Executive Director/Co-Executive Directors will revise CLO's project budgets as required and brings changes to the funder for approval.

Policy – Financial Controls - Annual Audit

An annual audit will be completed and presented to the members of the corporation for their approval.

Procedures

- ❑ At the annual meeting, the Board of Directors will recommend to the membership of the corporation the name of a chartered accountant to conduct the audit for the next fiscal year. The auditor must be appointed by a formal resolution from the membership.

- ❑ The auditor will conduct an audit of CLO’s financial/accounting systems and ensure that financial statements and records have been prepared in accordance with generally accepted accounting principles.
- ❑ The audit report will be presented to the Board for its approval as soon as is feasible after the end of the fiscal year.

Imagine Canada’s Standards Program

There is a lot of attention to accountability and transparency in the non-profit sector. Imagine Canada has developed a Standards Program and a voluntary peer-review-based accreditation process intended to strengthen the capacity of non-profits and charities in five key areas. Financial accountability and transparency is one of the five areas of focus and the following standards have been developed:

Accountability:

- Organizations must complete annual financial statements in accordance with an acceptable accounting framework identified by the Canadian Institute of Chartered Accountants.
- Organizations with over \$1 million in annual revenue must have their financial statements audited by an independent licensed public accountant. Other organizations may have a review engagement unless required by their governing legislation to have an audit.
- The organization’s financial statements must be received and approved by the board and released within 6 months of year end.
- **CHARITIES:** The board has a process to ensure that an accurate Registered Charity Information Return (T3010) is filed with the Canada Revenue Agency (CRA) within six months of year end, as required by law.
- **NONPROFITS:** The board has a process to ensure that an accurate Corporate Income Tax Return (T2) is filed with the CRA within six months of year end, as required by law.
- The board approves the annual budget and has a process to monitor the organization’s performance in relation to the annual budget. The board or a board committee reviews actual revenues and expenses versus budget at least twice a year.
- The board or a board committee receives from management, at least twice a year, assurance that all statutory remittances have been made.
- The board regularly reviews the cost-effectiveness of the organization’s fundraising activities. No more will be spent on administration and fundraising than is required to ensure effective management and resource development.
- Organizations with investable assets over \$100,000 must have an investment policy setting out asset allocation, procedures for investments, and asset protection issues.
- When the organization collects money (donations or sales) online its practices should be consistent with or exceed the provisions of the Canadian Code of Practice for Consumer Protection in Electronic Commerce.

Transparency:

- The organization's financial statements are publicly available.
 - The organization makes the following information available on its website:
 - Their most recent three years of annual reports
 - Their most recent three years of financial statements including notes as approved by the board and the opinion of the independent licensed public accountant who conducted the audit or review engagement; and
 - The names of all board members.
 - In addition to the above, **charities** must make the following information available on their website:
 - Their registration number (BN) assigned by the Canada Revenue Agency (CRA); and
 - The public portion of their most recent Registered Charity Information Return (form T3010) as submitted to CRA or a direct link to it.
- The organization makes information on compensation accessible to its stakeholders to at least the same level as that required by CRA in the T3010
- The organization discloses in its financial statements details of the purpose and amount of any payment for products or services to board members or companies in which a board member is an owner, partner or senior manager.
- The organization accurately discloses all costs associated with its fundraising activities.

For more information about Imagine Canada's Standards Program, please visit

www.imaginecanada.ca/standards

Legal Requirements

CLO is not offering professional legal advice, but it is safe to say that by ensuring that your agency has solid financial policies, you will also ensure that you are meeting your legal requirements as incorporated not-for-profit organizations. The following two sites should be visited on a regular basis to keep up with any changes in reporting and legal requirements for incorporated non-profits and registered charities.

Canada Revenue Agency (CRA) www.cra.gc.ca

Organizations with employees are required to make certain deductions on behalf of employees and to remit those deductions, along with the corresponding employer's contributions to the government. These deductions include income tax, Canada Pension Plan (CPP) and Employment Insurance (EI) benefits. Employers are also required to pay contributions for CPP and EI. It is important to visit this website to determine the current amounts and requirements, as they do change periodically.

Workplace Safety and Insurance Board (WSIB) www.wsib.ca

Some agencies will be required to pay annual WSIB premiums. You can find out more about WSIB requirements by visiting this site.

Additional Resources

A Guide for the Development of Policies and Procedures in Ontario's Community Literacy Agencies

www.nald.ca/clo/policies/guide1/devpol-1.pdf

This guide, written by Community Literacy of Ontario, is an oldie but a goodie! The Financial Management section in this guide focuses on operational policies which outline how the agency's principal activities are carried out within the scope of available resources. Financial Management policies set out guidelines and boundaries for managing and allocating financial resources to carry out the organization's mission.

Capacity Plus www.nald.ca/clo/resource/capacity_plus_book_02.pdf

Community Literacy of Ontario wrote Capacity Plus in order to assist literacy agencies to further develop, strengthen and showcase their organizational capacity. There is a great chapter dedicated to Financial Management.

Charity Tax Tools <http://charitytax.imaginecanada.ca/>

This website has been developed by Imagine Canada to provide charities registered with the Canada Revenue Agency (CRA) with information on the CRA's basic legal requirements.

Financial Responsibilities of Not-for-Profit Boards

www.muttart.org/sites/default/files/downloads/publications/financial_responsibilities.pdf

This workbook was developed by the Board Development Program of Alberta Culture and Community Spirit in collaboration with The Muttart Foundation as an introduction to some of the issues which face many not-for-profit organizations.

Keeping the record straight: introductory accounting for not-for profit organizations

www.cga-ontario.org/assets/file/publication_keeping_record_straight.pdf

Produced by the Certified General Accountants of Ontario, this resource is a bookkeeping package developed to help answer many record keeping questions in addition to providing assistance in properly managing funds.

Literacy Basics Website – Board Governance Module www.nald.ca/literacybasics/boardgov/intro/01.htm

Community Literacy of Ontario has designed this online self-study module to help organizations to further develop and strengthen their board governance practices.

Non-profit Cost Analysis

<http://www.bridgespan.org/Publications-and-Tools/Strategy-Development/Nonprofit-Cost-Analysis-Introduction.aspx>

Bridgespan Group designed this toolkit specifically to help guide non-profit leaders through a six-step cost-analysis process and offers blank financial templates and concrete examples.

Primer for directors of not-for-profit corporations (Rights, Duties and Practices)

www.ic.gc.ca/eic/site/cilp-pdci.nsf/eng/h_cl00688.html

Developed by Industry Canada, this resource gives a thorough overview of the roles and responsibilities of not-for-profit boards of directors.

Imagine Canada Non-Profit Library and Resource Centre

<http://library.imaginecanada.ca/>

An online source for both charity and non-profits that includes resource guides and research collections on a wide range of topics: Governance & Accountability, Philanthropy & Fundraising, Organizational Management, Human Resources and Volunteerism.