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Hello. Welcome to this e-learning session on Financial Best Practices, brought to you by Columbia Basin Trust, and presented by Vantage Point.

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My name is Carol Neuman and I’m the Director of Learning at Vantage Point. Vantage Point is a not-for-profit organization that supports other not-for-profits by providing foundational, advanced, and online learning opportunities. We work with more than 500 organizations and nearly 3000 not-for-profit leaders across BC.

Today, I’ll be your e-learning facilitator.

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In the previous session – Financial Best Practices Part 1 - I shared best practices about the people and the planning sides of managing your organization's finances.

In this e-learning, Part 2 of our series on financial best practices, we will explore the steps required to create strong financial systems. Over the next 15 minutes, I'll share some specific strategies to get the right financial policies in place, talk about regular financial reporting, and close by reviewing what documents you will need to file for your organization.

Let's get started!

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In case you didn't join us for Part 1 of this e-learning, here are a few reminders about the people part of creating great financial best practices.

There are five best practices I want to highlight:

- The Board is legally responsible for the financial well-being of the organization. So, it's important that everyone on the board fully understands the budget, the organization's resources, and the financial impact of the decisions made at the board table.
- Here's another key piece that can't be overlooked: you should always have financial reports reviewed by someone who didn't do the work. So, if you have a Treasurer, they should not be doing your bookkeeping. Instead, try to have a different staff member with the appropriate skills or a bookkeeper – either paid or a volunteer – do your financial record keeping.
- You might also want to consider engaging a volunteer professional accountant as your Treasurer.
- Building financial skills and knowledge is important for all not-for-profit boards. So, think about what financial training might be best for your board.
- And finally, if you choose to bring on a bookkeeper, try to find someone who has specific not-for-profit experience.

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But, even when you have the right people at the table and give them the right training, your work is not done. It's still possible to encounter financial trouble. Usually, when organizations get into financial trouble, it is usually for one of the following reasons:

- Financial roles or policies are not clearly defined,
- People do not understand and perform their roles well, or
- People do not understand or follow the policies.

The good news is that financial trouble is usually entirely preventable by creating strong financial policies. It is very important, even for the smallest organization, to do three things and do them well:

1. First, get clear on what is expected for all of the positions that have financial responsibilities – and here I mean staff, board, and volunteer positions. This can be done through a position description for individual roles and terms of reference for committees. Let's look at these:

- We'll start with position descriptions. Anyone who deals with your organization's financial assets – board, staff, or volunteers – should have clear position descriptions that describes their role, as well as what they are allowed to do, what they are expected to do, and what they are not permitted to do with your organization's finances. This might include writing cheques, preparing financial reports, handling petty cash, or authorizing transactions.

- Second, you may need to create terms of reference. If you have a Finance committee, you'll want to list their core purpose and responsibilities, how often they will meet, and who can serve on the committee in a document called "terms of reference." You can find many good examples of Finance committee terms of reference online.

2. The next step is to define financial policies. Which policies are most important to start with? In a moment, we'll take a look at seven key policies your board might want to consider.

3. The final step in creating clarity is communicating what is expected. This is about going beyond simply creating a role description or financial policy to actively communicating them across the organization. This might also involve providing more training for board or volunteers around specific financial policies, or having a one-on-one chat with new board members about their financial knowledge in order to find ways of increasing their knowledge and comfort level.

In summary, it is the board's responsibility to create financial policy, to communicate it, and to check that it is understood and being followed.

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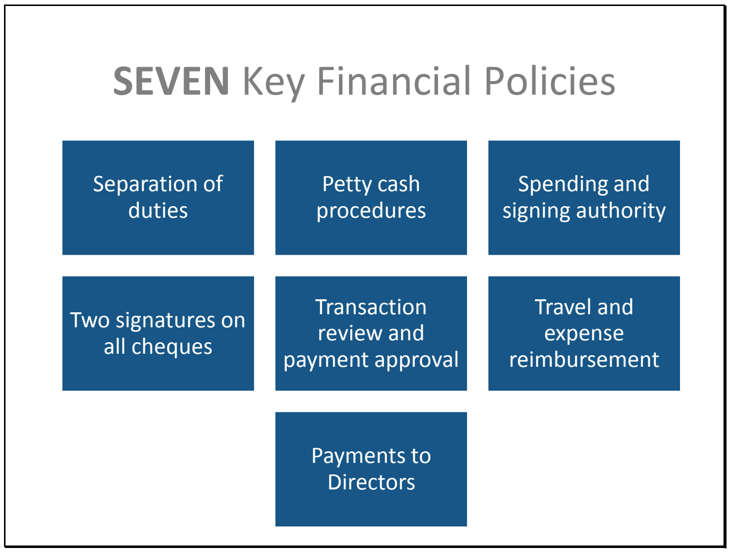

While there are many policies your board may want to create, here are the seven basic policies you'll probably want to start with.

Before I briefly describe each of these, I want to remind you that the purpose of these policies is to make sure your organization's finances are reviewed thoroughly, to support your board with its duty to provide oversight, and to make sure that no one can misuse your organization's finances.

So, here are the seven policies you'll want to consider creating:

- Separation of duties. This policy will set the expectation that no one person has control over all aspects of a transaction. It is a way of providing some checks and balances on how money is spent in your organization. As we've mentioned before, the person who inputs financial records should not be the same person who reviews those records for accuracy and completeness. This can be tricky in a small organization with limited staff members, so this is an opportunity to engage volunteers to step into some of your financial roles and provide support.

- Petty cash procedures. Petty cash is often used to cover small, routine operational expenses such as buying stamps. Having petty cash on hand means you need safeguards in place to make sure it is not used inappropriately. This will include physically securing the cash, such as in a locked drawer. Your policy will limit how much cash will be used, who can access it, what it can be used for, and how it will be replenished. It's also important that your policy is specific about keeping detailed records of your petty cash purchases. If your organization frequently receives a lot of cash, such as from event ticket sales, you may want to create a separate policy outlining how to handle that cash.

- Spending and signing authority. It’s important that you clearly spell out who is able to write cheques and spend money on behalf of your organization. Ideally, you’ll want to limit this to a few people, such as your leadership staff and one or two board members. You’ll also want to be specific about how much can be spent without first bringing it to the board for approval. What that number is depends on the size of your organization, how much risk you are willing to accept, and how often the board meets. You may decide, for example, to allow your leadership staff person to use a pre-paid credit card or debit card with a set limit of $300 to cover small expenses. Larger expenses might require a cheque be prepared and then signed by two different people. As well, make sure that the person who inputs your financial records, such as your bookkeeper, does not have signing authority on your chequebook.

- Two signatures on all cheques. This one seems self-explanatory but it’s easy to overlook this key policy. Having two signatures greatly reduces the risk of fraud.

- Transaction review and payment approval. You’ll again want to separate the duties of reviewing your incoming invoices and bills, and paying those bills. One way of doing this is to create a cheque request form, which details who the invoice is from, its purpose, and amount. This could be prepared by the bookkeeper. Then, your treasurer or leadership staff person will review the request, checking to see that the paperwork is complete and that an invoice is attached before authorizing the request. Finally, a cheque would be prepared and signed by two of your signing authorities.

- Travel and expense reimbursement. This policy is very useful if your board, staff, or volunteers pay for any program costs upfront and get reimbursed by the organization later on. It can help you outline what receipts and documents need to be submitted, who needs to review and approve them, and when reimbursements can be expected.

- A policy detailing any payments to Directors – either for their director duties or other work for the organization. This is a requirement under the new BC Societies Act. You can find more information about this requirement at the Government of BC website or by calling the BC Registry Service hotline at 1-877-526-1526.

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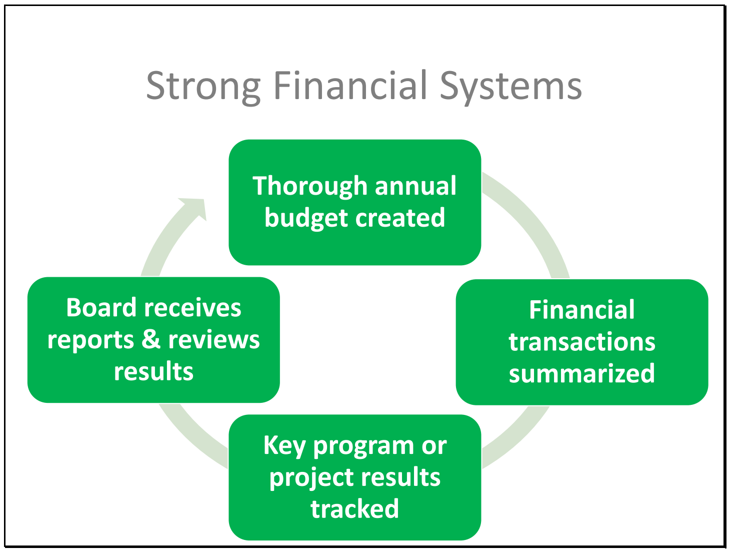

Keeping on top of the financial health of your organization is an ongoing responsibility of the board. Having strong financial systems will allow you, as a board member, to use clear, complete information to make good decisions for your organization. And, having strong financial systems will give funders and supporters confidence that your organization has the right people and processes in place to be able to deliver strong programs and projects.

As a board member, you want to be able to make decisions based on an accurate and timely financial picture of what's happening in your organization. To do that, you need four key components in place:

- The first is an annual financial budget that has been thoroughly discussed by the board and is well understood by everyone on the board. This budget should be connected to the organization's big picture goals and annual operating plan.
- Second is clearly summarizing financial transactions on an ongoing basis – not just once or twice per year. Good record keeping and summaries will allow both the board and staff to make good financial decisions.
- Third is organizing the financial results of each major program and project. Again, tracking the results on a regular basis will let you know how well the program is doing and give you the opportunity to make changes if necessary. One tip here: It can be very helpful if you can organize your program budget and results in the same format. This way, it will be easier to see how close you are to meeting your goals.
- Fourth, and this is very important, is about providing financial reports to the board on a regular basis. Reports should be reviewed at least once per quarter. The board needs this

information so it can perform its oversight role. And it's also key to remember that the board needs to understand the financial information it receives in order to be able to ask the right questions and make solid decisions for the organization. A good way to focus the board's time is to review the major differences between the actual financial results and what was planned for in the budget. It's good practice to keep track of your discussion about financial reports in the board meeting minutes.

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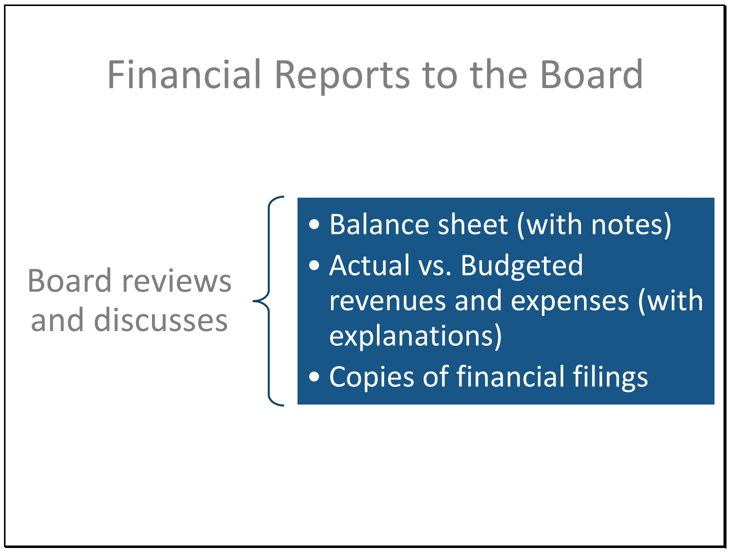

Now let's look at what financial reports the board should expect to receive at board meetings. The best information is summarized, simple, and clear. Something too complicated or lengthy might be confusing, and cause the board to get lost in unhelpful details.

Whether it is your leadership staff, part-time bookkeeper, or a volunteer accountant providing these reports, it is very important you and the rest of the board read them and discuss them thoroughly.

Most boards should review the following key pieces of information:

- An up-to-date copy of the Balance Sheet. This may also be called the Statement of Financial Position. It will have notes about the most important items. This will provide important information about the overall financial situation of your organization. Specifically, it compares your assets – what you own, your investments and cash you have in the bank – to your liabilities – what you owe and money you expect to be paid out soon – and give you a clear sense of what your net assets are. With this report, you'll want to pay attention to major changes, and any notes about specific items that require board discussion.

- The second key report will allow you to track your ongoing operations. It compares your Actual vs. Budgeted revenues and expenses for the current period. With this report, you'll want to ask questions and get explanations about any significant differences between what you planned to have happen and the actual results. Let's say your largest budget item is your seniors program that was expected to bring in about $4,000 in registration fees this year.

However, far more people have signed up than you anticipated. Registration fees are actually over $5,700. It seems like the program will be a major success, right? That's certainly possible. But that doesn't let the board off the hook from asking questions. For example, the board also has to pay attention to see whether the expenses associated with the program will also be higher. Will more staff be required to support the program? Will your facility be able to accommodate all the participants, or will you have to rent a larger one? Are there changing trends in the community that the board needs to be aware of? Ideally, the financial report the board receives will come with explanations of why the program results are so different from what was expected, and provide some suggestions on how to deal with the changes.

- Finally, the board should also have copies (or access to copies) of any financial reports or filings sent to government and funders. Now, these do not necessarily have to be approved by the board, but it is a good idea to have copies available for the board to review.

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Filing Government Returns

Type of Return	Charity	Not-for-profit
Annual Non-profit Corporation / Society Return	Yes	Yes
T2 – Corporation Income Tax Return	No	Yes
T1044 – Non-profit Organization Information Return	No	Maybe
T3010 – Registered Charity information return	Yes	No
GST – Public Service Bodies Rebate	Yes	Maybe

Keeping up with the financial filings required for your organization is another core board responsibility. If you have leadership staff, this is something you may want to delegate to them. However, as a board, it is important to check to make sure all filings are up to date and correct.

In order to understand which returns you need to file, you need to understand whether your organization is a not-for-profit organization or a registered charity.

All incorporated societies – including all not-for-profit organization and charities – are generally required to file an annual return under the legislation under which they were registered. For organizations in BC that are registered under the Societies Act, this means submitting a filing to the provincial government on an annual basis.

In addition, all not-for-profit organizations are required to file an annual T2 Corporation Income Tax Return. In addition, if they meet certain criteria, they are also required to file an annual T1044 Non-profit Organization Information Return.

Charities, on the other hand aren't required to file either of those returns – but all registered charities are required to file an annual T3010 Registered Charity Information Return.

With respect to sales taxes, if you sell taxable supplies, you may be required to file GST or PST returns. In addition, you may be eligible to apply for the Public Services Bodies Rebate – and receive 50% of the GST that you paid back in the form of a refund. If you are unsure about whether this applies to your organization, you may want to reach out to an accountant or to the Canada Revenue Agency to get advice.

If you have staff members, be aware that there are also additional forms that need to be filed for payments to employees, contractors and anyone receiving honorariums.

Finally, I'll mention that this is not a complete list of everything you may be expected to file. There may be additional filing requirements for your organization. If you are unsure of the filing requirements for your organization, you should get professional tax advice.

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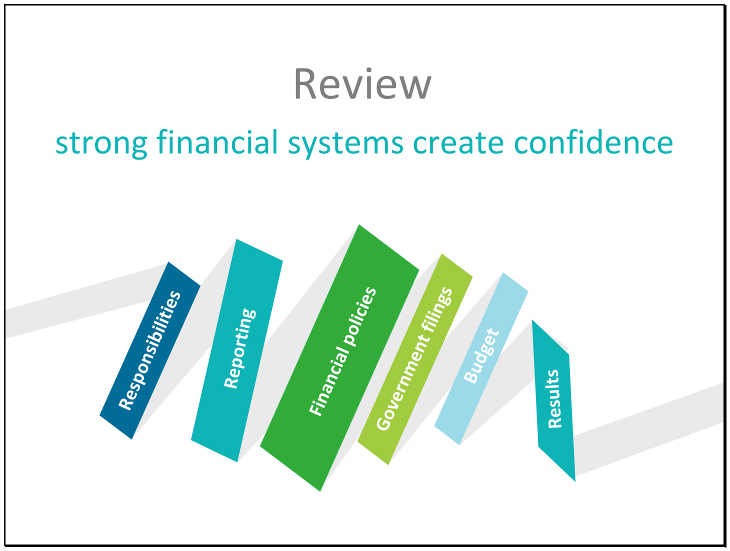

Strong financial systems create confidence in your organization – both externally and within your organization.

Make the time to create clear financial roles and responsibilities, develop strong financial policies, and have ongoing board discussions about key financial reports.

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Thank you for joining us for this e-learning session.

We hope you join us again next time.