



Understanding SWDCRS Financial Statements

FINANCE AND AUDIT COMMITTEE

The Board formally delegates authority to the Finance and Audit Committee to act on its behalf in the review of monthly financial statements, and to act on its behalf in previewing the annual audit as presented by the auditor and Executive Director.

The purpose of the Finance and Audit Committee is to ensure sound, prudent and transparent financial operations on behalf of the board, and to help the board increase its financial literacy.

Responsibilities <i>(as they pertain to monthly reports)</i>	When to Meet	What to Report at Meetings
<ul style="list-style-type: none"> • Review financial statement as prepared by the Executive Director. • Assess the Executive Director's compliance with Executive Limitations as they relate to finances. • Report violations to the Board. 	<ul style="list-style-type: none"> • MONTHLY, after monthly financials received/reviewed 	<ul style="list-style-type: none"> • Areas of concern. • Areas needing clarification. • The Executive Director's compliance with policy.

The Finance and Audit Committee reviews several statements as part of each monthly financial report package. Below is a summary of each statement, and questions board members can ask themselves.

INCOME STATEMENT

- The Income Statement is a summary of revenue and expense items.
 - **Revenue:** Money that comes to the SWDCRS through grants, fees, interest and other sources.
 - **Expenses:** Amounts paid out by the SWDCRS for operating costs, program costs, salaries, insurance, rent, etc.
- The Income Statement shows where the revenue comes from and how much the SWDCRS has left (surplus) or is short (deficit).
 - Items are grouped together by strategic direction and strategic priority.
 - Grouping is important for comparative purposes whether from month to month or year to year.
- The Income Statement shows a financial picture for a specific period of time. Monthly Income Statements provide details from the start of the fiscal year (April 1) to the end of the month being reported.
- The Income Statement can be a comparative document, showing actuals v. budget. *Since the SWDCRS uses a Working budget system, comparative statements are not used.*

Other Names

- The Income Statement is sometimes referred to as:
 - Statement of Operations
 - Profit and Loss Statement

Board members can ask these questions to better understand the Income Statement.

- Where is most of the revenue coming from?
- What expected revenue has not yet been received?
- Is SWDCRS spending its money as outlined in the budget?
- Are there expenses that seem unusually high/low?
- Are salaries in line with the budget plan?

- What are the different key activities being offered and do their expenses seem appropriate?
- Are there any line items that are unclear or not understandable?

BALANCE SHEET

- Unlike the Income Statement which reflects revenues and expenditures over a fixed period of time, the Balance Sheet is a cumulative report of the SWDCRS's assets, liabilities and surplus/deficit.
 - **Assets:** Something the SWDCRS owns, or something owed to the SWDCRS.
 - Cash in bank accounts.
 - Office equipment and supplies.
 - GST to be rebated to the SWDCRS after year-end.
 - Payments the SWDCRS is waiting to receive.
 - **Liabilities:** Something the SWDCRS owes.
 - Bills to be paid.
 - Revenue earmarked to be used next year (deferred revenue).
 - The SWDCRS has no long-term (paid out over more than a year) liabilities such as loans.
 - **Surplus/Deficit:** The net difference between the assets and the liabilities.
 - The Surplus/Deficit is sometimes referred to as:
 - Equity
 - Shareholder's Equity
 - Retained Earnings
 - Net

Board members can ask these questions to better understand the Balance Sheet.

- Do any bank account balances seem unusually high/low?
- From whom is the SWDCRS waiting to receive money?
- To whom does the SWDCRS owe money?
- Does the SWDCRS have a surplus or deficit, and if so, is it appropriate for this point in the operating year?

CHEQUE LOG

- The Cheque Log is a list of all cheques written for the month being reported.

Board members can ask these questions to better understand the Cheque Log.

- Do the cheque numbers for the current month begin where the previous month's cheque numbers finished, if not, why?
- Are the names of the payees recognizable?
- Have any cheques been voided/reversed and why?
- Have any of the cheques been printed more than once?
- Do any of the cheque amounts seem out of line with normal daily operations?

ACCOUNT RECONCILIATIONS

- Bank Reconciliations report a summary of the deposits and withdrawals for a specific bank account for the month being reported.
- The SWDCRS has 5 bank accounts:
 - Chequing
 - Used for payment of all operating expenditures.
 - Savings
 - Used for receipt of all operating revenues.
 - Petty Cash accounts for 3 employees.
 - Used for incidental, out-of-office travel, or conference purchases.



Board members can ask these questions to better understand Account Reconciliations.

- Was a reconciliation completed for each bank account?
- Does the reconciliation cover the dates for the full month being reported?
- Does the reconciliation begin the day after the previous month's report ended?
- What was the date the account reconciliation was completed?
- Are there any outstanding transactions and why?

GENERAL LEDGER

- The General Ledger reports the detailed transactions for each account code for the month being reported.
- The SWDCRS has over 150 account codes used to categorize revenues and expenditures.

Board members can ask these questions to better understand the General Ledger

- Do the transactions attributed to each account code seem appropriate for that category?
- Are the names of the payees recognizable?
- Do any of the transaction amounts seem out of line with normal daily operations?

BUDGET

- A budget is a road map for the operating year. It will indicate revenue, expenses, and how much may be left over at the end of the year.
- Budgets reflect the appropriate (in accordance with the strategic plan, mission, vision) and prudent (paying fair market value for goods/services and compensation in accordance with industry standard) use of SWDCRS funds.
- Budget reports are provided to the Board prior to each meeting and cover from the beginning of the fiscal year up to a date approximately 2-4 weeks prior to the meeting.
- Budget reports use a three-column format.
 - Initial Planning Budget.
 - Working Budget
 - Actuals Report.

Board members can ask these questions to better understand the Budget.

- Are there enough funds to carry out the work planned for the operating year?
- Are there significant differences between budget plans and previous year's results?
- Is the budget in line with the strategic plan?
- How much of a cushion does SWDCRS have against adverse events?

Comparative Budget, Column #1 – Initial Planning Budget

- Each year the Executive Director prepares an operating budget as a revenue and expenditure guide for the operating year.
 - Budget format follows the same format of the operating plan so all revenues/expenses can be tracked back to their corresponding key activity/outcome/priority.
- The **Initial Planning Budget** is a balanced budget meaning revenues and expenditures are equal and no surplus or deficit is planned for the year; the SWDCRS expects to spend all it receives.
- The budget includes revenue and expense expectations for the year.

Comparative Budget, Column #2 – Working Budget

- The SWDCRS cannot keep any of the grant money it receives, so the Executive Director prepares a **Working Budget** to use throughout the year.
- The **Working Budget** is a second column beside the original budget.
- As programs are completed, excess funds are immediately reallocated to another program area where a greater budget need has developed.

- The **Working Budget** is supported by Governance Policy EL-4, 10: *Fail to realign program funds, within pre-approved budget categories, during the operating year to ensure all grant funding is fully spent.*

Comparative Budget, Column #3 – Actuals Report

- As the operating year progresses, the Executive Director prepares a third column of numbers to report the actual revenues received and actual expenditures made.

ANNUAL AUDIT

- An external auditor analyzes the SWDCRS's finances looking for evidence that the accounting information is correct and consistent with SWDCRS activities.
- The auditor assesses internal financial controls and procedures to the extent that it might impact the assessment of the validity of the information recorded.

Responsibilities <i>(as they pertain to the annual audit)</i>	When to Meet	What to Report at Meetings
<ul style="list-style-type: none"> • Ensure that an annual audit is conducted by a reputable accounting firm, prior to the Annual General Meeting. 	<ul style="list-style-type: none"> • MARCH, prior to year end • MARCH, prior to April policy review board meeting 	<ul style="list-style-type: none"> • Timelines ED has set up for the audit.
<ul style="list-style-type: none"> • Work with the Executive Director to prepare for dissemination of any suggestions brought forth by the auditor. • Review the external auditor's management letter and management's response. 	<ul style="list-style-type: none"> • MAY, as soon as audit first draft has been received/reviewed 	<ul style="list-style-type: none"> • Auditor's suggestions or concerns. • Summary of audit.
<ul style="list-style-type: none"> • Ensure the audited financial statements are presented at the Annual General Meeting. • Recommend an audit firm to the membership at the Annual General Meeting. 	<ul style="list-style-type: none"> • MAY/JUNE, as soon as audit final report has been received/reviewed 	<ul style="list-style-type: none"> • Summary of audit presented to AGM attendees. • Audit firm for next year.
<ul style="list-style-type: none"> • Delegate authority to one person to complete the auditor's Fraud Questionnaire, either the Director of Finance or designated board member. 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> •

Auditor's Report

- The summary letter from the auditor, outlining if they were able to verify all information provided to them in the financial records and statements.

Statement of Financial Position

- Like the Balance Sheet but for the entire fiscal year.
- Completed after the audit and any adjustments.
- Summarizes assets, liabilities, and net assets (equity, surplus/deficit).
- Comparative to the year prior.

Statement of Operations and Net Assets

- Like the Income Statement but for the entire fiscal year.
- Completed after the audit and any adjustments.
- Summarizes all revenue and expenses by major category.
- Comparative to the year prior.

Statement of Cash Flows



- Shows how changes in balance sheet accounts and revenue/income affected cash and cash equivalents for the entire fiscal year.
- Completed after the audit and any adjustments.

Notes to Financial Statements

- Additional information pertaining to SWDCRS's operations and financial position.

Schedules to Financial Statements

- Details of all revenue and expenses by sub-category.
- Comparative to the year prior.

Board members can ask these questions to better understand the Audit.

1. Did the auditor require significant adjustments to the financials prepared by the Executive Director?
2. Did the auditor find any weaknesses in internal controls?
3. Did the auditor have any concerns about the activities of the SWDCRS?
4. Were there any reasons for the auditor to issue a qualified report? If so, why? How will the matter(s) be corrected?
5. What meetings were held with the auditor and the Executive Director, separately or together?
6. Did the auditor ask for confidential feedback from the board?



GLOSSARY

Amortize	To deduct the purchase cost over a period of multiple years
Assets	Something the SWDCRS owns or something owed to the SWDCRS.
Balance Sheet	A cumulative report of the SWDCRS's assets, liabilities and surplus/deficit.
Bank Reconciliations	A summary of the deposits and withdrawals for a specific bank account for the month being reported.
Capital Assets	Major equipment owned.
Cheque Log	A list of all cheques written for the period of time being reported.
Deferred Revenue	Revenue earmarked to be used next year.
Equity	The net difference between the assets and the liabilities; surplus/deficit.
Expenses	Amounts paid out by the SWDCRS for operating costs, program costs, salaries, insurance, rent, etc.
General Ledger	The detailed transaction for each account code for the period of time being reported.
Income Statement	A summary of revenue and expense items.
Liabilities	Something the SWDCRS owes.
Revenues	Money that comes to the SWDCRS through grants, fees, interest and other sources
Self-Generated Revenue	Membership fees, program/services fees, savings account interest