



Financial Seminar For Skate Clubs

April 26, 2019

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Loewen Kruse

Chartered Professional Accountants

- ▶ Loewen Kruse specializes in charities and not-for-profit organizations
- ▶ We provide the following services:
 - ▶ Assurance
 - ▶ Accounting and bookkeeping
 - ▶ Consulting
 - ▶ CRA Compliance

Loewen Kruse

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- ▶ Serving the Not For Profit Sector, including:
 - ▶ Sports Clubs
 - ▶ Youth Organizations
 - ▶ Religious Organizations
 - ▶ Health Organizations
 - ▶ Camps
 - ▶ Special Purpose Organizations

Agenda

- ▶ Canada Revenue Agency (CRA) compliance for Not for Profit Organizations
- ▶ Three Levels of Engagements for Financial Statement Reporting
- ▶ BC Societies Act - Financial Disclosure
- ▶ Risk - What You Need to Know

CRA Compliance for Not For Profit Organizations (NFPs)

- ▶ NFPs *may* have to file three returns with the CRA
 - ▶ T1044 Not For Profit Information Return
 - ▶ (if the NFP exceeds the exemption thresholds)
 - ▶ T2 Corporation Income Tax Return
 - ▶ GST Return

CRA Compliance for Not For Profit Organizations

- ▶ A few items to keep in mind:
 - ▶ NFPs are exempt from paying income tax on income that does not accrue back to the members of the organization
 - ▶ Not all NFPs need to file the T1044
 - ▶ All NFPs need to file a T2 Corporation Income Tax Return
 - ▶ NFPs file a GST Return if the NFP is registered for GST

CRA Compliance for NFPs - T1044 Information Return

- ▶ A NFP must file a T1044 if:
 - ▶ it received or is entitled to receive taxable dividends, interest, rentals or royalties totalling more than \$10,000 in the fiscal period;
 - ▶ it owned assets valued at more than \$200,000 at the end of the immediately preceding fiscal period; or
 - ▶ it had to file an T1044 information return for any previous fiscal period.

CRA Compliance for NFPs - T1044 Information Return

- ▶ The T1044 needs to be filed no later than six months after the NFP's fiscal year end
- ▶ Penalty for late filing is \$25 per day with a maximum penalty of \$2,500
- ▶ However, the CRA has an administrative policy not to apply the penalty if it the first time the not-for-profit organization has late filed the T1044.

CRA Compliance for NFPs - T2 Corporation Income Tax Return

- ▶ All NFPs must file a T2 Corporation Income Tax Return
- ▶ Due date is six months after the NFP's fiscal year end
- ▶ There is no monetary penalty for late filing of the T2, but if the club has never filed a T2, please contact your accountant

CRA Compliance for NFPs - Goods and Services Tax (GST)

- ▶ A NFP must register for GST and file GST returns if:
 - ▶ It provides taxable supplies in Canada; and
 - ▶ It is not a small supplier
- ▶ Small suppliers •
 - ▶ A NFP is a small supplier if its total revenue from taxable supplies are \$50,000 or less in a single calendar quarter and in the previous four consecutive calendar quarters.

CRA Compliance for NFPs - Goods and Services Tax (GST)

- ▶ Supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, crafts, arts, hobbies or other recreational activities are **exempt** if: -
 - ▶ You provide them primarily to children 14 years of age or under and it does not involve overnight supervision throughout a large part of the program; or
 - ▶ You provide them primarily to individuals who are underprivileged or who have a disability

Three Types of Financial Statement Reports

- ▶ A CPA can issue one of three types of reports on financial statements:
 - ▶ Audit
 - ▶ Review Engagement Report
 - ▶ Compilation (“Notice to Reader”)

Three Types of Financial Statement Reports- Audit

▶ Audit

- ▶ Highest level of assurance available
- ▶ The auditor will provide an opinion that the financial statements are not materially misstated
- ▶ Financial statements are prepared with standardized rules and regulations (called “Generally Accepted Accounting Principles” (“GAAP”))

Three Types of Financial Statement Reports- Audit (continued)

▶ Audit

- ▶ Most costly engagement
- ▶ Not necessary to have an audit if nobody requires it
- ▶ BC Societies Act generally does NOT require an audit

Three Types of Financial Statement Reports- Review Engagement Report

- ▶ **Review Engagement Report**
 - ▶ Medium level of assurance
 - ▶ A Review is NOT AN AUDIT
 - ▶ Financial statements are prepared with standardized rules and regulations (called “Generally Accepted Accounting Principles” (“GAAP”))

Three Types of Financial Statement Reports- Review Engagement Report

▶ Review Engagement Report

- ▶ Most banks, lenders, grantors accept a Review
- ▶ Medium cost

Three Types of Financial Statement Reports - Compilation

- ▶ **Compilation (“Notice to Reader”)**
 - ▶ No opinion or assurance is given on the financial statements
 - ▶ Financial statements are NOT prepared with standardized rules and regulations (called “Generally Accepted Accounting Principles” (“GAAP”))

Three Types of Financial Statement Reports - Compilation

- ▶ **Compilation (“Notice to Reader”)**
 - ▶ Lowest cost
 - ▶ Acceptable for small clubs where the members want to have financial information, but are not concerned with audited or reviewed financial statements

BC Societies Act - Financial Disclosure

- ▶ The new *Societies Act* came into force November 2016
- ▶ For *all* financial statements prepared on or after November 28, 2016, a Society must:
 - ▶ Disclose the remuneration paid to all directors, if any, regardless of amount.
 - ▶ Disclose the remuneration paid to all employees and contractors whose remuneration is \$75,000 or more.
 - ▶ If the Society has more than ten employees and contractors remunerated over \$75,000, only the ten highest compensated individuals must be disclosed.

Risk - What you need to know

- ▶ NFPs face many types of risk, and each NFP must have a plan in place to:
 - ▶ Identify Risk
 - ▶ Manage Risk
 - ▶ Monitor Risk
 - ▶ Reduce Risk

What is Risk?

- ▶ What does “risk” mean?
- ▶ For this seminar, “risk” refers to threats and potential barriers to opportunities
- ▶ **Risk** is anything that affects an organization’s ability to meet its objectives and preserve its reputation

Types of Risk

- ▶ **Compliance risk** - failure to remit payroll deductions, filing T2/T1044/GST Return late,
- ▶ **External risk** - losing public support, failing to respond to economic or demographic trends
- ▶ **Financial risk** - fraud, financial failure
- ▶ **Governance risk** - risk of ineffective leadership or poor decision making, apathetic board

Types of Risk (continued)

- ▶ **Information technology risk** - data loss or data breach
- ▶ **Operational or program risk** - risk of poor service or delivery, day-to-day crises, misuse of human or capital resources, injury during instruction/competition
- ▶ **Reputation risk** - risk of losing goodwill, status in the community
- ▶ **Environmental risk** - weather, natural events or disasters

Types of Risk (continued)

- ▶ Quick list of other risks:
 - ▶ **Misconduct** (sexual, behavioral) by an employee or volunteer (operational/reputational)
 - ▶ **Inexperienced employees or volunteers** (operational/reputational)
 - ▶ **Poor internal controls** (financial)

Identifying Risk

- ▶ There are usually too many risks for the Board to individually identify and manage
- ▶ In response, the Board may strike up a Risk Management Committee

Identifying Risk (continued)

- ▶ Cost of Risk Management is far less than the cost of a major event
 - ▶ You can plan for it
 - ▶ It is less expensive
- ▶ The Board should be aware of and understand the “major” risks of an organization
- ▶ Create a *Risk Register*

Identifying Risk (continued)

- ▶ A well-balanced board will include members from different disciplines, and with different experiences (“stack” the board)
- ▶ Board meetings need to have regular training sessions
- ▶ Recommendation: Board expertise and training
- ▶ The Executive Director should discuss Board Composition with the Chairperson

Identifying Risk (continued)

How to Identify Risk

- ▶ **Internal processes** - interviews, questionnaires, brainstorming, creating a *Risk Register*
- ▶ **SWOT** analyses
- ▶ **Whistle blower Policy** (43% of fraud is detected through a whistle blower policy)
- ▶ **External sources** (comparison with other similar organizations, discussion with peers)
- ▶ **Audits** (safety, environmental, financial audits)

Managing Risk

- ▶ Four ways:
- ▶ Avoid risk
- ▶ Transfer risk
- ▶ Mitigate risk
- ▶ Accept risk

Managing Risk (continued)

Avoiding Risk

- ▶ If an organization has a **Code of Conduct** which is followed by all people in the organization, various risks are reduced
 - ▶ Fraud is reduced
 - ▶ Conflicts and other events that could harm the organization are reduced
- ▶ **Recommendation:** the Board approve a Code of Conduct, and lead by example

Managing Risk (continued)

Avoiding Risk

- ▶ If it's too risky, don't do it
- ▶ However, people may be too risk averse, and forego legitimate opportunities
- ▶ Before abandoning an idea, weigh the risks against the rewards of the idea

Managing Risk (continued)

Transferring Risk

- ▶ Insurance policies
- ▶ Waivers
- ▶ Permission Slips

Managing Risk (continued)

Mitigating Risk

- ▶ Proper internal controls
- ▶ “Checks and balances”

Managing Risk (continued)

Accepting Risk

- ▶ It may make sense to accept the risk, and monitor it

Monitoring Risk - Keep A Risk Register

- ▶ Identify the risk
- ▶ Score the risk
 - ▶ Likelihood of risk occurring (low/medium/high)
 - ▶ Impact of Risk (low/medium/high)
 - ▶ Severity of Risk (rating based on likelihood and impact) (low/medium/high)
- ▶ Describe how the risk is mitigated
- ▶ Describe how the risk is to be monitored

Monitoring Risk - Keep A Risk Register - Example

- ▶ Identify the risk

- ▶ Crazy Parent

- (incessant emails, complaints to the Board, slander on social media)

- ▶ Score the risk

- ▶ Likelihood = medium

- ▶ Impact = medium

- ▶ Severity = medium (financial risk, reputation risk)

Monitoring Risk - Keep A Risk Register - Example

- ▶ Describe how the risk is to be mitigated
 - ▶ Proactive involvement once the behaviour starts,
 - ▶ conflict resolution meeting
- ▶ Describe how the risk is monitored
 - ▶ Open dialogue with parents, skaters, volunteers, coaches

Thank You for Attending!

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