

Books and Records: Financial Records

Introduction (Slides 1&2)

This module covers concepts on financial books and records excluding length of retention. There are three core concepts:

- ❖ Need for financial records
- ❖ Types of financial records
- ❖ Financial records and the Annual Information Returns

Other concepts covered are:

- ❖ Tax receipted gifts
- ❖ Non tax receipted gifts
- ❖ Gifts received from other charities
- ❖ Professional & consulting fees
- ❖ Charitable program expenses
- ❖ Fundraising expenses
- ❖ GST / HST
- ❖ Management & Administrative expenses
- ❖ Allocation of expenses
- ❖ Salaries and benefits
- ❖ Political expenses
- ❖ Travel and vehicle expenses
- ❖ Gifts & specified gifts to qualified donees
- ❖ Expenses of activities outside Canada
- ❖ All other expenses

Need for Financial Records (Slide 3)

Financial records are essential for operating an organization and for reporting to the board, donors, funders, government, supporters and the community.

Registered Charities are required to keep adequate financial records by Canada Revenue Agency (CRA) in English or French to ensure compliance and to verify revenues and expenses reported on the Annual Information Returns.

The records of individual revenue and expense items are essential in completing the Annual Information Returns.

Types of Financial Records (Slides 4&5)

Financial records generally include:

- ❖ Financial statements
- ❖ Copies of official donation receipts
- ❖ Copies of T3010A and T3010B Information Return
- ❖ General Ledger and other ledgers
- ❖ Bank statements
- ❖ Inventories
- ❖ Expense accounts
- ❖ Investment agreements
- ❖ Accountant's working papers
- ❖ Payroll records
- ❖ Source documents such as invoices, vouchers, purchase orders, contracts, receipts and bank deposit slips

Annual Information Return (Slides 6&7)

The numbers in the financial records are the basis for completing most of the forms of the annual information return. The return includes:

- ❖ Form T3010A (05) *Registered Charity Information Return* for the fiscal period that begin after March 22, 2004 and end on or before December 31, 2008.

or

- ❖ Form T3010B (09) *Registered Charity Information Return* for the fiscal period ending on or after January 1, 2009.

and...

- ❖ Form T1236 (09) *Qualified Donees Worksheet / Amounts Provided to Other Organizations*
- ❖ Form T1235 (09) *Directors/Trustees and Like Officials Worksheet* which requires the record of the governing documents

These forms are available at

www.cra-arc.gc.ca/tx/chrts/prtng/rtrn/ftfr/menu-eng.html

A Registered Charity may lose its registered status if it does not file the required return annually.

Completing T3010A and T3010B (Slide 8)

For information on completing Form T3010A and T3010B, visit these two CRA funded projects:

- ❖ The Legal Information Society of Nova Scotia
www.legalinfo.org/index.php?option=content&task=view&id=172&phpMyAdmin=f9ea848783485f3dd76c9082d2c76a5a
- ❖ The Charities File
<http://thecharitiesfile.ca/>

or

Dial 1 800 267 2384 for service in English
or
1 888 892 5667 for bilingual service

Tax-receipted gifts (Slide 9)

The Charity's financial record has to be set up so the amounts of the receipted gifts can be easily separated based on how it is donated.

- ❖ In addition to keeping copies of the official donation receipts issued, the total amount of receipted gifts for each fiscal period have to be maintained.
- ❖ Within the receipted gifts, separate records have to be kept for cash gifts and gifts-in-kind.
- ❖ Records of gifts of enduring property have to be kept separately.

Non tax-receipted gifts (Slide 10)

Records of non tax-receipted gifts include:

- ❖ the total amount of non tax-receipted gifts for each fiscal year separate from the tax-receipted gifts;
- ❖ revenues from fundraising activities where tax receipt was not issued;
- ❖ non-tax receipted gifts from sources outside of Canada;
- ❖ other non tax-receipted gifts not in the above categories

Gifts from other charities (Slide 11)

Separate records have to be kept for gifts received from other charities or **qualified donees**. These gifts are considered revenues/income of the registered charity.

The records should reflect each gift received and the total amount for each fiscal year.

(Definition: Qualified donees include registered charities and other organizations that can under the Income Tax Act issue official tax receipts.)

Professional and Consulting Fees (Slide 12)

Profession and consulting fees generally refer to payments made to those who provided services and are not employees of the Charity.

Records of these fees have to be kept in the manner that the amounts can be easily extracted and supported by source documents.

Charitable Program Expenses (Slide 13)

Charitable programs are programs that further the object of the Charity.

For example, the mission of **ZXY Charity** is to help children learn how to read. So expenses such as the salaries of the employees who help the children with reading and cost of books are charitable program expenses. Records of these expenses have to be separated from other expenses.

Some expenses may have both management and charitable programs components. These expenses may be allocated on a reasonable and consistent basis.

Fundraising Expenses (Slide 14)

Records of expenses related to fundraising such as mailouts, events, printing of fundraising letters and payment to external fundraisers have to be kept separately, if possible or easily isolated from other expenses.

There are instances where fundraising expenses are allocated based on the portion of an activity that is fundraising. In this instance, the records have to support the total expenses and how the allocation was made.

Examples of allocating fundraising costs can be found at www.charitycentral.ca/site/?q=node/417

GST/HST (Slide 15)

If a Charity is registered for Goods and Services tax/harmonized sales tax (GST/HST), it is required to maintain records and source documents used to determine its GST obligations and rebates.

Consult the checklist on the CRA website at
www.cra-arc.gc.ca/tx/chrts/chcklsts/gsthst-cfc-eng.html
or
Call 1-800-959-5525 CRA Business Window Section

Management/Admin Expenses (Slide 16)

Management/administrative expenses are expenses that support but do not further the objects of the Charity. Expenses such as accounting, auditing, costs relating to the overall management of the charity and board meeting expenses are generally considered management/administrative expenses.

Charities are allowed to spend a total of 20% of their receipted revenues on management /administrative, fundraising and permitted political activities.

Allocation of Expenses (Slide 17)

Some expenses are for both management and charitable programs. Allocation of these expenses to management and charitable programs is acceptable as long as the approach is reasonable and consistent.

Salaries and Benefits (Slide 18)

Records of payroll, i.e. employees' salaries and benefits have to be kept up to date and easily accessible for review and audit.

Political Activities Expenses (Slide 19)

Financial records of political activities expenses relate to those expenses of limited **non-partisan** political activities that are related but **subordinate** to the charity's purposes.

These expenses have to be kept and reported in the Annual Information Return.

CRA Policy on Political Activities (CPS-022) available at
www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-022-eng.html#P263_26553 provides information on the expenditures limit.

Travel and Vehicle Expenses (Slide 20)

Records of travel and vehicle expenses for a fiscal year have to be kept in a manner that the numbers can be extracted for reporting purposes.

Gifts and Specified Gifts to Qualified Donees (Slide 21)

Records of gifts including specified gifts to other registered charities or qualified donees in a fiscal year, with the names of the charities/qualified donees, the dates and the amounts have to be kept and easily accessible.

Expenses Outside of Canada (Slide 22)

Records of expenses incurred outside of Canada and the accompanying original source documents have to be kept.

They have to be easily accessible or the amounts can easily be extracted from the records with its supporting documents.

All Other Expenses (Slide 23)

Records of all other revenues and expenses not listed in this module such as government grants, interest income, office supplies, and occupancy costs have to be maintained with their supporting documents.

The revenue and expense items listed in this module are the ones that individual amounts have to be reported on the T3010B return.

Notice (Slide 24)

Information in this module is provided for general educational purposes and not as legal or accounting advice. Consult a lawyer or accountant for professional advice.

Information is accurate as of May, 2009.

For changes after this date, consult Canada Revenue Agency.