PRENTICE YATES & CLARK CHARTERED PROFESSIONAL ACCOUNTANTS

Breaking Even

Not for profit corporations and how to minimize costs and maximize benefits including: investment strategies, purchasing vs leasing assets, comparing directly hired staff to contracted consultants, responding to a loss of funding, and acting as a trustee

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NFPO Operating Cycle

- Often know how much funding will be received in advance
- Donation levels are also predictable
- Assume ability to increasing revenue is low to moderate

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NFPO Operating Cycle

- Expenses are fixed, semi-variable, variable
- Fixed – lease square footage cost, salaried staff
- Semi-variable – utilities
- Variable – hourly staffing, office supplies and equipment
- Most expenses have a fixed and variable component

Minimizing Costs

- Lease cheaper space, sublet excess, lease space from an NFPO with extra space
- Participate in cost saving program but do not become complacent
- Consider the merits of a volunteer program

Investment Strategy

Worst case scenario

- Monthly funding or other primary income not deposited
- Regular bills are to be paid (high season for utilities)
- Funder claws back their overpayment
- Invest everything else

Chequing Account

- Reasonably 1-3 months operating costs
- Use financial institutions with similar philosophies such as credit unions

OR

- NFPO chequing accounts – pays interest, lower fees – at regular financial institutions

Short-term Investment

- Planned spending for the next year
- Deferred revenue to be used within the next 12 months
- Less variable, low returns especially in current market
- No penalties for early withdrawal

Long-term Investment

- More variable but higher returns overall
- Can defer or minimize withdrawal in bad times
- Protect some with variable-rate GIC or similar investment

Long-term Investment

- May need investment advice from your broker including investment strategies, investment vehicles, portfolio diversification
- Does not replace your own investment policy which is for the management (including Board) to set-out the overall objectives, prohibitions on types and terms of investments and who can bind the corporation in an investment decision, etc.

Purchasing vs Leasing

- Toronto Star article says Ontarians rent their water heaters and Albertans buy
- No reasons found for the difference other than habit
- Which do you choose and why?

Leasing

Pros

- Fixed and predictable cost
- Free repairs
- Potential for off-the-books financing
- Upgrade potential may be in lease terms

Cons

- Seemingly obvious repairs are not covered
- Contract may not have a termination date
- Accounting becomes more involved if a capital lease

Purchasing

Pros

- One time fixed cost
- Can decide when to upgrade or dispose of it
- Unrestricted title, can use as collateral

Cons

- Large initial cost outlay
- Repair and maintenance costs
- May have to incur finance charges

Purchasing vs Leasing

- Cash available or cost of financing versus present value of lease payments
- Who gets title at the end
- What is covered under the terms of the lease
- Experience of others with similar equipment
- Emerging technology

Compensation

- Often the largest item on the financial statements
- Sensitive to users of the financial statements
- Scrutinized by CRA, funders and the public
- Usually doesn't tell the real story if you are delivering a service
- Emerging issue in accounting standards would be to present expenses by function in the financial statements and by object in the notes

Compensation

- NFPOs are largely staffed by women (about 75%)
- Average full-time salary is $15,000 lower than the average Canadian salary
- 70% of part-time workers are women
- Higher risk for burnout

Staffing

- Organization has to make optimal use of its resources
- Employment costs include:
  - Salary (straight and overtime)
  - Paid time off
  - Benefit package – prescription, dental, short-term disability, pensions
  - Training

Staffing – Contractors

- Allows the organization to transfer much of the employment risk to another organization or individual
- Fixed remuneration
- Consistent supply of labour with lowered the risk of downtime
- May not share the organization's vision, less committed

Staffing - Considerations

- Number of hours required
- Seasonal variability in time requirement
- Funding sources
- Level of 'commitment' required – core vs. non-core functions

Loss of Funding

- Structure the organization in a way that allows you to respond quickly
- Respond based on whether it is permanent or temporary
- Try to negotiate wind-up funding
- Consider being transparent with staff and other funders to the extent possible without divulging too much

Service Contracts

- Large repair bills are shocking but not necessarily more expensive than contracts
- Some service contracts are required or make good business sense – elevators, HVAC systems
- Others provide more limited utility – computer software

Fees

- Choose a bank account package which meets the NFPO's needs at the best rate
- Take advantage of early payment discounts
- Make payroll remittances and GST/HST payments on time
- File T1044 by the deadline
- File funder reports on time, ask for an extension if unable to meet the deadline

Accounting and Audit

- Spend more on accounting and less on audit
- If accounting skill set not available in-house, consider part-time help
- Ask for audit and accounting fees with project funding
- Keep internal records in a way that facilitates external reporting

Accounting and Audit

- Avoid auditor hopping
- Avoid complacency in relationship with auditor
- File non-financial information returns during the year
  - Form 1 (co-op)
  - 546 & 574 (other NFPOs)
  - RC232/RC232WS (charities)
- Business consent (RC-59) for staff

Payments to Suppliers

- Minimize large prepayments
- Make payments to vendors based on the end of their grace period
- Take advantage of rebates
  - Toronto Hydro is offering rebates of up to 50% is you install energy efficient appliances
  - Program ends February 2016
  - Must use approved contractor (70 in Toronto alone)

Financing

- Dependence on funding instead of sale of goods and services means that NFPOs has to pay a premium on debt
- Consider whether your primary funder is willing to act as a guarantor
- Same as banking – develop relationships with organizations who understand and support NFPOs

Property Tax Rebate

- City of Toronto provide property tax rebates for charities
- Up to 40% of the property tax paid
- Deadline for 2015 is February 29, 2016
- Not the same as the municipal tax reduction available to NFPOs based on the services they provide

Property Tax Rebate

- Be a charitable organization within the meaning of the Income Tax Act
- Own and occupy or be a tenant and occupy the space
- Property taxes are not in default on the property
- Any other proof required by the City of Toronto

Trusteeship

- NFPO acts as the financial manager for smaller, usually unincorporated, entity
- Voluntary trusteeship, not for troubled organizations
- Smaller organization does not have expertise or infrastructure available
- You receive the funding on their behalf and receive a stipend, say 10% of the funds, to handle their disbursements

Trusteeship

- Low risk commitment
- Not likely to require significant time
- Stipend could work out to be 'free' money
- Funds received for the small organization is unlikely to be funds that you would otherwise receive

Trusteeship

- Should only work with a trusted individual
- Only get involved if you have staff time available
- Keep in mind that risks exist in that irregularities in how the funds are applied or missed reporting deadlines will require an accounting from you

Providing Event Space

- Potential risk is high
  - On-site security
  - Insurance coverage
- Renting meeting rooms to organizations and individuals
  - Lower risk
  - Keep room to bare minimum – tables and chairs, outlets

Fundraising

- Play it safe and build incrementally
- Consider synergies
  - Seasonal
  - Informal partnering
- Target donors, not just attendees
- Use registration fees
- Focus on retention

Fundraising

- Track the actual costs of the event(s) including time taken away from other responsibilities
- Send the acknowledgment soon after the event
- Complete the accounting while it is still fresh
- Lotteries and bingo
- Seasonal bazaars

If You Own Your Building

- Food co-op in the basement
- Install solar panels and sell to the local public utility or use and reduce your consumption
- Make some of your parking commercial, if municipality allows
- Adult day programs in unused spaces
- Rooftop sign or antenna

HST Rebate

- Relief is available to both charities and NFPO differently
- An HST rebate is available to all charities even if not registered
- NFPOs only qualify for the rebates when they receive at least 40% of their funding from governments.
  - Or have municipal status

HST Rebate

- NFPOs are required to file two semi-annual claims
- Enforcement was lax in the past but CRA has now sent letters out and expect two rebate applications per year
- The deadline is 4 years after the end of the period which allows you to have both done at the same time during the annual audit

HST Rebate

- Receiving the rebate at the half-year mark gives you access to your money that much sooner
- Completing the rebate application is as easy as pie
- You already only put a portion of the HST into the rebate account, the only issue is how to allocate it among the lines that apply to you

HST Payable

- Charities and NFPOs are treated <u>differently</u> for the purposes of HST registration, collection and remittance
- NFPO may have to charge HST on a service that a charity providing the same service <u>may not</u> be required to treat as a taxable supply
- Many charities and NFPOs qualify as small suppliers and are not required to register for HST

HST Payable

- Recent CRA audits show the following may be taxable
  - Property sold in gift shops
  - Admissions to places of amusement
  - Memberships
  - Sponsorships and grants
  - Recreational programs and camps
  - Real estate sales, leases or licenses

HST Payable

- **Revenue sources – taxable supplies?**

NFPO		Charity	
Food and beverage	Taxable	Food and beverage	Taxable
Subscriptions	Exempt	Government funding	Exempt
Rental income (low income housing)	Exempt	Rental income (low income housing)	Exempt
Rental income (Air rights)	Taxable	Rental income (Air rights)	Exempt
Conference fees	Taxable	Conference fees	Taxable
Tuition fees	Exempt	Bookstore	Taxable
Sponsorships	Taxable	Sponsorships	Exempt

HST Payable

- Small supplier are exempt from registration,

  collection and remittance
  - Gross taxable supplies are below $50,000 for previous four consecutive calendar quarters in total
  - In addition for charities, gross revenue is $250,000 or less
- If you charge HST to your customer, then the exemption no longer applies
  - You must remit the HST collected

HST Payable

- Charity – Calculation

Revenue			Taxable supplies
Donations	$300,000	Exempt	
Food and beverage	10,000	Taxable	10,000
Management fee service	15,000	Exempt	
Bookstore	5,000	Taxable	5,000
Rental income (housing)	500,000	Exempt	
Rental income (Air rights)	25,000	Exempt	
Rental income (sublet space > 30 days)	15,000	Exempt	
Parking	10,000	Exempt	
Investment income	10,000	Exempt	
Total	$890,000		$15,000

HST Payable

- NFPO – Calculation

Revenue			Taxable supplies
Membership fees	$300,000	Taxable	$300,000
Food and beverage	10,000	Taxable	10,000
Management fee service	15,000	Taxable	15,000
Bookstore	5,000	Taxable	5,000
Rental income (housing)	500,000	Exempt	
Rental income (Air rights)	25,000	Taxable	25,000
Rental income (sublet space > 30 days)	15,000	Exempt	
Parking	10,000	Taxable	10,000
Investment income	10,000	Exempt	
Total	$890,000		$365,000

HST Payable

- The Charity does not have to remit or collect HST
- However NFPO would have to register, collect and remit HST
  - since the NFPO is over the $50,000 threshold of taxable supplies

HST Payable

- **Don't forget to track your revenue!**
- Implications: You fail to charge HST
  - CRA assesses the NFPO
- It's too late to go back to your customer to collect HST
  - NFPO is out-of-pocket the HST
- Failure to remit tax can result in the directors, officers or members being held liable to remit an amount of the tax owing