

Esquimalt Nation

Financial Literacy for Boards & Councils

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Game plan

This evening

- What are your financial responsibilities and why?
- Overcoming fear of financial statements
- “Financial Literacy for Dummies”
- Sneak preview of what’s coming

Wednesday evening

- We will conduct two board meeting financial reviews
- Be prepared to pepper us with questions

An important distinction

- Throughout this seminar, I will frequently refer to “**you**”. You may be the Esquimalt Nation Chief, a Councillor or a Committee member; you may be a Director on a First Nation’s Board or corporation or Trust; or on a Committee; or you may be a future Councillor or Director
- What you are **not** is staff, management, accountant, auditor, advisor or any other outside person
- This seminar is about you and for you as a Councillor or Director

What are your responsibilities?

- As a Councillor (or Director) you have two basic duties:
 - **Fiduciary duty** – must act only in the best interest of your organization (Esquimalt Nation, Trust, corporation); honestly, in good faith, confidentially, and free of any conflict of interest
 - **Duty of care** - “exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances” - i.e. put in the time to understand the business to the best of your skills and knowledge
- As a Councillor (or Director), you have many responsibilities:
 - Steward of the organization’s business – “NISO”
 - Select and oversee the CEO
 - Develop and oversee the vision, mission and strategic plan
 - Many, many other responsibilities

Your financial oversight responsibilities

- Financials impact many of your responsibilities & help you:
 - Measure progress toward achieving the goals and aspirations
 - Monitor performance and assure that assets are safeguarded
 - Understand & mitigate the risks facing the organization – monitor against a budget; insurance; physical protection of assets; safe investments; policies & controls; many others
 - Appoint & oversee the auditor
 - Learn new accountant jokes

- The financial statements are the report card

How do you do this?

Option 1

- Acknowledge that accounting is the best gig ever, and
- go to school, get an advanced accounting degree, or ...

Option 2

- 2 slides ago we said you must:
 - Invest the time to understand your organization's business
 - to the best of your skills & knowledge

You don't need to have accounting expertise to perform your duties; but you do need to have some basic financial knowledge and ask questions until you are comfortable that you understand the business at hand

How do you do this?

- Many people are uncomfortable with reading and understanding seemingly complex financial information
- You think that you are the only one who doesn't understand the numbers, and
- You don't ask questions out of fear that you will look dumb
- Fear not ...
- Most people don't ask the questions, because they are in the same boat as you

How do you do this?

- But
- You are responsible for understanding the business ...
- And you don't understand the financial statements
- How do you even know what questions to ask?



How do you do this?

- Simple, you are not expected to be a bean counter
- In fact, it best that you are not - this way, you can ask the so-called “dumb” questions
- Each of you has different levels of knowledge & interest in financial matters, but all of you have a good understanding of your organization’s business
- Your job is to understand the financials to the best of your ability as they relate to the business and to ask the questions until you are comfortable
- Trust the financial information, but verify it

How do you do this?

- But ...
- How can I even ask the dumb questions, if I am uncomfortable with the financial reports in front of me?
- I see lots of numbers & reports written in an “accountant-eze” language and my eyes glaze over
- You should do two things ...



Appoint an accountant

- Appoint an accountant to your Board, Council or Committee who will ask the tough questions to staff & management
 - May be a full member with voting rights; an ex-officio member (non voting) or part of a committee
 - But, should not be management or staff
 - The accountant will bring the expertise skills & knowledge, and
 - Will help you better understand the financials
- This does not alleviate the financial responsibilities of the rest of the Board or Council
 - You still have to understand the financials to the best of your ability as they relate to the business and ask the questions until you are comfortable
- Here's how we do that ...



Financial Literacy for Dummies

(accounting basics for the rest of us)

Financial Statements – the basics

- Why do we need financial statements?
 - Planning & control – the report card
- Who prepares the financial statements?
 - Qualified staff or hired accountants , or bookkeepers
 - Outside accounting firms review the statements
- Who reads the financial statements?
 - Management, Directors, Councillors, Trustees
 - Shareholders, community members
 - Others – lenders, funders, partners, other governments
- There are two types of financial statement readers
 - Financial experts & accountants – management, lenders, funders
 - Everyone else – not financial experts, but thoroughly knowledgeable about the organization and its business – that means **you**

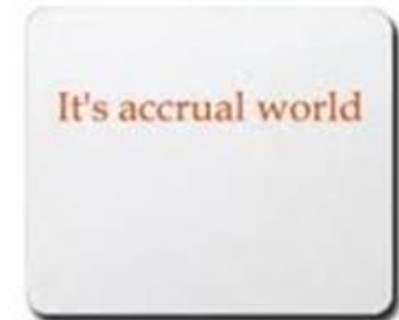
Two Types of Financial Statements

- Management (internal) financial statements
 - For management & the Board or Council
 - Presented by management in a format that is meaningful to the organization (not audited), usually monthly or quarterly
 - Purpose is to help with planning, monitoring & financial control
- External (audited or reviewed) financial statements
 - For all other readers
 - Presented in *generally accepted accounting principals* (GAAP) format
 - Audited (or reviewed) by external accountants at least annually
 - Purpose is to report financial health and performance to the external stakeholders
- Examples

Elements of a Financial Statement

Some basics

- Provide the reader with the organization's financial position (what we own & what we owe) and financial performance (how we performed)
- Should be compared to something – a budget or a prior period
- Meaningful, timely and reasonably accurate for the reader's purpose
- Elements of the financial statement
 - Balance Sheet (a.k.a. Statement of Financial Position)
 - Income Statement (a.k.a. Statement of Operations)
 - Change in Financial Position
 - Notes to the Statements
 - Accountant's Notice to Reader



Elements of a Financial Statement

Balance Sheet (a.k.a. Statement of Financial Position)

- What you own (assets), less what you owe (liabilities) = what is left over is yours (net worth)
- As of a certain point in time (example - March 31, 2015)
- Assets – cash, receivables & notes (\$\$ owed to you), inventories, property (land, buildings, equipment, etc), intangibles, investments, etc
- Liabilities – accounts payable & accruals, debts & other obligations (\$\$ you owe to others)
- Net worth (accumulated surplus) is the assets (what you own), less liabilities (what you owe)
- Property and equipment
 - Recorded on the balance sheet at cost, less
 - Accumulated depreciation (an estimate of wear & tear over the years)
 - This is not necessarily what this property is worth

Elements of a Financial Statement

Income Statement (a.k.a. Statement of Operations)

- Your performance (revenue, less expenses) measured over a period of time (example - April 1, 2014 to March 31, 2015)
- Revenues – list of all revenues that have been earned (earned, billed & paid; earned & billed, not yet paid; earned, not yet billed)
- Expenses – directly related to the revenues, general overhead (administration), other expenses (interest, depreciation)
- Surplus or profit when revenues are greater than expenses; deficit or loss when expenses are greater than revenues
- Accumulated surpluses or deficits over all time = the accumulated surplus or deficit as shown on the balance sheet

Elements of a Financial Statement

Income statement & Balance sheet work together

- Most non-expert readers understand the income statement and the balance sheet somewhat less (even though accountants like to make it look complicated)
- These two statements work together to give you a total picture of your financial performance during the period of time and financial position as at the end of that period of time
- If you have a basic understanding of what you are looking at in these two statements, you have enough knowledge to ask a lot of tough questions
- And these questions are no longer “dumb” questions
- However, we still have to cover the rest of the financial statements ...

Elements of a Financial Statement

- The rest of the audited financial statement is important, but maybe not as important to you, as a non-expert. Lets look at them anyway
 - Statement of change in financial position or cash flow – these don't add much new information for you – mostly ties the income statement and balance sheet together
 - Notes to the financial statements – you should read these if you are interested as they provide additional information for the reader. However, part answers to many of your questions are probably in these notes, so, why not simply ask the questions and let management answer with relevant information to you?
 - Management statement of responsibility – it is very important that you read this as it advises the reader that management is responsible for the statements
 - Auditors report – this provides the auditor's opinion that the financial statements generally conform to the GAAP, qualifications if any, and advises the reader of the auditor's limitations (c.y.a.)
- What about the internal management statement?
 - Should always include a balance sheet and income statements to whatever level of detail that management requires to do its job and you want to perform your duties
 - Management notes and commentary is often very helpful

Recap – 10 questions

1. What are your two fundamental duties as a Director or Councillor?
2. How do these relate to your financial oversight responsibilities?
3. Do you have to be a financial expert to perform these duties?
4. Should you have an accountant on your board or council?
5. Why do you need to review the financial statements?
6. What are the two different types of financial statements?
7. What is the purpose of the balance sheet?
8. What are the major elements of the balance sheet?
9. What is the purpose of the income statement?
10. What are the other parts of the financial statement?



Homework & Wednesday agenda

Your assignment

- You have 4 financial statements – internal financials and external audited financials for the Esquimalt Nation and for Salish Sea Industrial Services
- Review these statements and come to the Wednesday seminar with at least one meaningful question for each of these four financial statements

Wednesday agenda

1. Brief recap of Monday's seminar; answer questions; receive praise
2. Conduct two financial review meetings during which you will ask your questions regarding the internal and audited financial statements
 - Salish Sea – Doug is the manager and will be on the hot seat
 - Esquimalt Nation – Janice is the manager to whom you will try to trip up
3. Wrap up and any final questions

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