

## Basics of a Financial Statement

Your application to Community Presenters Assistance (CPA) must include an annual financial statement for the year most recently completed.

It must include a balance sheet and be signed by an authorized board member.

It must be independently produced and can be either in the form of an audit or a financial review.

### Types Of Financial Statements

The financial situation of an organization is shown to its members through various types of statements. They include:

Independent audit / financial review

Income Statement

Balance Sheet

All financial statements indicate the type of statement, the organization's name, and the date or time period it covers.

### Audits and Financial Reviews

An audit or financial review is an annual examination of your financial records to ensure their accuracy. Both incorporated and non-incorporated groups should have someone, preferably not a member, do the examination. Canada Revenue Agency may decide to perform an audit on an incorporated group after receiving its tax return. One of the auditor's procedures is to verify that journal entries agree with cancelled cheques.

To prepare for an audit, the treasurer should gather the year's financial records, including journals, cancelled cheques, cheque stubs, receipts, bills and the three financial statements.

Following an audit or review, the accountant preparing the audit/review will prepare a signed statement giving his/her opinion regarding the accuracy and honesty of the financial records.

Most organizations will engage in an audit or review process in preparations for their AGM presentation.

### Income Statement

This report, also known as a Statement of Operations or a Statement of Receipts and Disbursements, gives a picture of how much money was earned (revenue) by the organization and how much money was spent (expenses) over a specified period of time.



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## Balance Sheet

A balance sheet is a summary of the financial position of an organization at a specific point in time.

A balance sheet has three parts.

**Part 1: Assets** – anything of value that the organization owns. Your organization may have one or several of each of two types of assets listed in its balance sheet.

*Current Assets* are money or items of value, which can be readily converted into cash. Examples include securities, inventories (items for sale and supplies to be used), prepaid expenses, and services.

*Fixed Assets* are property or equipment that is expected to last longer than one year.

Fixed assets may be reported by original cost, market value (amount asset could be sold for) or by depreciated value. Depreciation spreads the cost of an asset over its useful life. The annual cost of depreciation (determined by published schedules) will be shown on the income statement. The remaining asset value is carried forward and reported on the balance sheet.

The value of the office equipment should be depreciated. Land is not depreciated since it is not consumed over time and seldom declines in value. Notes relating to the valuation of fixed assets are usually included in the balance sheet or are attached as an appendix.

**Part 2: Liabilities** – debts or amounts owed by the organization. This includes money owed to suppliers and amounts owed to employees for wages or salaries.

*Current liabilities* are obligations due and payable within one year (including any loan principle payments).

*Long-term liabilities* are obligations such as loans or a mortgage to be paid off in more than one year.

## Part 3: Equity, Net Worth or Capital

Equity = Assets - Liabilities

Reviewing the association's equity is important because it shows the accumulated worth of an organization.

Relationship between the Income Statement and the Balance Sheet

The net income (or loss) from the Income Statement is brought forward to the Balance Sheet. To obtain the year-end equity position, net income is added or net loss is subtracted from the equity position at the beginning of the year.

## Budget Surpluses

If you have an undesignated accumulated surplus please discuss it with the Coordinator.

Your demonstrable “real need” for public sector financial assistance is defined as:

Applicants with annual budgets under \$50,000: Organizations which hold undesignated, working capital reserves in excess of 50% of annual gross revenues, will not be eligible for assistance;

Applicants with annual budgets greater than \$50,000: Organizations which hold undesignated, working capital reserves in excess of 50% of the first \$50,000 plus 25% of annual gross revenues over \$50,000 will not be eligible for assistance.

## Sample Balance Sheet

As of 12/31/2007

Account	Balance
<b>ASSETS</b>	
CASH AND BANK ACCOUNTS	
Bank Account	<u>\$ 3,310.27</u>
TOTAL CASH AND BANK ACCOUNTS	\$ 3,310.27
OTHER ASSETS	
Investment Cert.	<u>\$ 11,426.87</u>
TOTAL OTHER ASSETS	\$ 11,426.87
<b>TOTAL ASSETS</b>	<b>\$ 14,737.14</b>
<b>LIABILITIES</b>	
LIABILITIES	
Accounts payable	\$ 1,654.74
Piano Trust	<u>\$ 11,297.27</u>
TOTAL OTHER LIABILITIES	\$ 12,952.01
<b>TOTAL LIABILITIES</b>	<b>\$ 12,952.01</b>
<b>EQUITY</b>	
Surplus	\$ 785.13
Accumulated Surplus	<u>\$ 1,000.00</u>
TOTAL SURPLUS	\$ 1,785.13
<b>TOTAL EQUITY</b>	<b>\$ 3,981.21</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$14,737.14</b>