
Discussion Profile

Advocacy Actions for Churches Regarding Compilation Engagements

Issue

Potential advocacy actions to support churches affected by increased costs for compilation engagements in accordance with the *Accounting Standards for Not-For-Profit Organizations* (ASNPO).

Background Information

In June 2020, the Board of Directors of The Christian and Missionary Alliance in Canada enacted a change to the *Local Church Constitution* (LCC), Article 12.2 that is subject to ratification by General Assembly 2022. The enacted change to the LCC, Article 12.2 now reads:

All financial records shall be prepared and maintained according to Accounting Standards for Not-For-Profit Organizations, and shall be subject to an audit, review, or other independent evaluation annually as prescribed by the bylaws, with the following exception: churches with an annual revenue not exceeding \$250,000 may by special resolution of the membership choose instead to utilize a compilation engagement to be completed by an independent Chartered Professional Accountant if permitted by federal, provincial or territorial regulations. To remain in effect until such time as annual revenue exceeds \$250,000 or revoked by a special resolution of the membership²⁶.

²⁶ In effect by resolution of the Board of Directors from May 1, 2020 to General Assembly 2022 where it may then be confirmed, rejected, or amended by the Members.

All organized churches in the CPD were sent letters informing them of this important change at the end of October 2020. For churches with annual revenue over \$250,000 the option to use a compilation engagement is not available. Churches that have annual revenue under \$250,000 may use a compilation provided they meet the requirements outlined above.

The District Office has received responses from multiple churches regarding the impact of the increased costs for compilation engagements to be in accordance with ASNPO and for reviews if they are over the \$250,000 annual revenue threshold.

George Brodie, Lead Pastor at Revelstoke Alliance Church, is also a Chartered Professional Accountant (CPA) and has reached out to his previous accounting firm about this situation. They offer a competitive rate and if several smaller churches sign with this firm there is the possibility of negotiating a small discount. George has also graciously offered to help churches by informing them how to prepare their financial statements well so as to incur the smallest possible cost.

Current Statistics

Based on 2019 church annual revenue, CPD records show the following:

- Churches under \$250K – 35[^]
- Churches \$250-\$500K – 21
- Churches \$500K-\$1M – 11
- Churches \$1M+ – 15

[^]Two (2) churches are included here where their annual revenue is not known but believed to be under \$250K.

Churches under \$250K are using the following financial reporting method as recorded in their bylaws:

- Notice to Reader (required to amend bylaws) – 4
- Compilation Engagement – 7^{*}
- Review – 12
- Audit – 0
- Unknown – 12^{**}

^{*}There are currently two (2) churches approved to use a compilation and five (5) in the approval process.

^{**} Six (6) churches included in the 'Unknown' group are developing churches and have not yet been required to adopt bylaws. Four (4) churches have not yet completed an initial bylaw review and the financial reporting method is not known.

Churches \$250K-\$500K are using the following financial reporting method as recorded in their bylaws:

- Compilation Engagement – 2[†]
- Review or Review/Audit – 17
- Audit – 1
- Unknown – 1

[†]There is one church approved to use a compilation and one church in the approval process. Both church's annual revenues were under \$300K.

Information from the National Ministry Centre

The change in the LCC in 2017 from Generally Accepted Accounting Principles (GAAP) to the *Accounting Standards for Not-for-Profit Organizations* (ASNPO) was an editorial terminology change as GAAP had been replaced by ASNPO in 2011/2012. GAAP had been in the LCC since at least 2004 (records are not available prior to this date), so the requirement to comply with a national accounting standard is well established.

Given the stewardship and accountability embedded in the LCC by referencing a national accounting standard, it may not be likely that an amendment is made. Ken Pelissero, C&MA Director of Finance, believes that reference to ASNPO should not be removed, and likened removal of an accounting standard to choosing not to follow a building code for a house because the costs are too high. In his opinion, there is too much risk and liability involved.

Regarding the current \$250K threshold in the LCC, Ken was very reluctant that it be increased out of a desire for healthy stewardship and accountability. He noted that when the Board of Directors deliberated on DEXCOM's request for the \$500K threshold that a CPA on the Board had commented that there is legislation in Ontario that prevents a higher threshold and as the LCC is a national document, the \$250K threshold was deemed appropriate.

Questions to Consider:

- Would the Finance Committee recommend that the C&MA Board of Directors either enact a change in the LCC or recommend to General Assembly 2022 that the ASNPO requirement for compilation engagements be removed?
- Would the Finance Committee recommend that the C&MA Board of Directors either enact a change in the LCC or recommend to General Assembly 2022 that the annual revenue threshold be increased from \$250K to \$500K?