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# Use of Compilation Engagements in Church Bylaws

## Definitions

**ASNPO** – *Accounting Standards for Not-For-Profit Organizations*

**BOD** – Board of Directors

**C&MA** – The Christian and Missionary Alliance in Canada

**CPA** – Chartered Professional Accountant

**CPD** – Canadian Pacific District

**DEXCOM** – District Executive Committee

**LCC** – *Local Church Constitution*

**MCB** – *Model Church Bylaws*

## Background

In the last quarter of 2019, it came to the attention of the Canadian Pacific District (CPD) District Executive Committee (DEXCOM) that allowing the use of compiled financial statements (previously referred to as “Notice to Reader” financial statements) in church bylaws would cause the church to be in non-compliance with the *Local Church Constitution* (LCC).

Prior to June 2020, the LCC, Article 12.2 contained the following requirement:

All financial records shall be prepared and maintained according to *Accounting Standards for Not-For-Profit Organizations* [ASNPO], and shall be subject to an audit, review, or other independent evaluation annually as prescribed by the bylaws.

Due to restrictions contained in Section 47 of the *Chartered Professional Accountants Act* (BC), only a duly licensed Chartered Professional Accountant (CPA) can provide a report or evaluation that makes any reference to ASNPO and/or that provides any assurance that a church’s financial records are prepared and maintained in accordance with ASNPO. As well, restrictions contained in Canadian compilation engagement standards in place at that time, which CPAs are required to adhere to, prohibited CPAs from being associated with compiled financial statements that made any references to ASNPO.

On account of the above two restrictions, an audit or review of the annual financial statements by a duly licensed CPA were the only two methods available to CPD churches to demonstrate that their financial records were prepared and maintained according to ASNPO.

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In February 2020, significant and comprehensive changes to compilation engagement standards in Canada made it possible for compiled statements to make references to ASNPO.

Knowing what the February 2020 changes to compilation engagement standards would be, from October 2019 to February 2020, extensive work was done by DEXCOM on this issue. Initially, churches whose bylaws contained reference to "Notice to Reader" financial statements were informed that they were out of compliance with the LCC. As well, churches who were in the process of amending their bylaws and desired to include the use of a compilation engagement were placed on hold until a resolution could be found, and to avoid further non-compliance in church bylaws, the *Model Church Bylaws* (MCB) were revised to remove the option for anything other than a review or an audit.

As part of this work, DEXCOM also asked the Board of Directors (BOD) of The Christian and Missionary Alliance in Canada (C&MA) to bring a change in the LCC, Article 12.2, to General Assembly 2020 that would allow churches to use compilation engagements in certain circumstances.

The Coronavirus pandemic impacted General Assembly, and this issue was not brought forward for discussion to the Meeting of the Members in June 2020. Rather, the BOD enacted a change to the LCC 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 membership<sup>26</sup>.

<sup>26</sup> 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.

This change in the LCC, Article 12.2, combined with changes to Canadian compilation engagement standards have now made it possible for CPD churches to allow for compiled financial statements in their bylaws, with certain restrictions.

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To allow for the use of compilation engagements and to strengthen the financial sections of the MCB, revisions were made in October 2020 to clauses 3.1.2, 5.7, 5.7.1, 5.8, and 5.9.

### **Determining Annual Revenue**

A church's annual revenue is to be determined in accordance with ASNPO and utilizing whichever method of recognizing contributions the church uses per its own accounting policies; either the restricted fund method or the deferral method of accounting for contributions. How a church is to determine its annual revenue remains unchanged.

#### **Churches with Annual Revenue Exceeding \$250,000**

If your church's annual income exceeds \$250,000, you are not able to use a compilation engagement and must instead use a review or audit. Compilation engagements cannot be referenced in your church's bylaws.

#### **Churches with Annual Revenue Not Exceeding \$250,000**

#### **Compilation Engagements**

It is important to note that in the case of audited or reviewed financial statements, the CPA reporting on the financial statements evaluates and assesses the financial information provided by the church and provides an assurance report about the resulting financial statements and notes to the financial statements.

In the case of compiled financial statements, the CPA compiling the financial statements is not required to perform any procedures to verify the accuracy or completeness of the financial information provided by the church or to evaluate the financial statements. On account of this, the CPA cannot provide any form of assurance about the financial statements.

We recognize that using compiled statements may be a less expensive option than, at a minimum, reviewed financial statements, and that churches with smaller incomes may not easily afford reviews every year. The change to the LCC now allows churches with an annual revenue not exceeding \$250,000 to use compilation engagements, provided that the compiled financial statements are prepared in complete accordance with ASNPO.

## Required Compliance for Church Bylaws

If you received a letter from the District Office in February 2020 notifying you that your church bylaws were out of compliance with the LCC, DEXCOM is now requiring that you amend your bylaws to comply with the LCC. The motion passed at the October 6, 2020 DEXCOM meeting states:

**Moved and seconded that this letter to churches be sent to CPD churches informing them of the changes in the *Local Church Constitution, Article 12.2, advising of the risks and requirements of using compilation engagements in their bylaws, and requiring compliance to the revised mandatory clauses in the *Model Church Bylaws.****

**CARRIED**

## Requirements and Considerations for Using Compilation Engagements

If your church has annual income that does not exceed \$250,000 and is required to make a bylaw amendment, or is contemplating a bylaw amendment to allow for the compilation of the annual financial statements instead of a review or audit, the following are important requirements and considerations to be aware of:

- There are currently two different compilation standards in Canada. The one that has been in place for more than 30 years (Section 9200, CPA Handbook – Assurance) can be used up to and including financial periods ending before December 14, 2021. Under this compilation standard CPAs are prohibited from being associated with compiled financial statements referencing any type of accounting standard (including ASNPO). Therefore, financial statements compiled under Section 9200 have no way of demonstrating they have been prepared in accordance with ASNPO and therefore contravene the LCC.
- The new compilation standard (CSRS 4200, CPA Handbook – Assurance) was published in late February 2020 and is effective for compiled financial information for periods ending on or after December 14, 2021. Early adoption of CSRS 4200 is permitted. Under CSRS 4200, the LCC's ASNPO financial statements reporting requirement can be met.
- Should your church choose a compilation engagement, you will need to ensure that the compiled financial statements are prepared under this new standard (CSRS 4200) and that the compiled financial statements and notes to the financial statements are in complete compliance with ASNPO.
- The change to the LCC, Article 12.2, is subject to ratification at General Assembly 2022. While it is unlikely this change will not be ratified, please be aware that it may not be ratified or if it is, could be subject to change.

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- We caution you not to assume that the cost to have the financial statements compiled annually as compared to reviewed annually will be significantly less expensive, as compiled financial statements will still need to be prepared in complete accordance with ASNPO.
- Should annual revenue exceed \$250,000, at a minimum a review will be required for that year even if the church members have previously resolved by special resolution for a compilation of the financial statements.
- If the church's annual revenue exceeds \$250,000 at some point in the future, or if the members revoke the special resolution, there are likely to be added costs in the first year of the change from a compilation to a review over and above the additional cost of a usual review. This is because there are specific additional procedures that a CPA must undertake when the engagement is changed from a compilation to a review.
- If, in a year subsequent to the one(s) exceeding the \$250,000 annual revenue threshold the church's annual revenue drops back below \$250,000 and the members want to revert back to compiled annual financial statements, the church could do so as long as the members pass a new special resolution in regard to same.
- Please be aware that not all CPAs who are licensed to perform compilation engagements are also licensed to perform review engagements and/or audit engagements. Given that the compiled financial statements still need to be prepared in complete accordance with ASNPO, you will want to ensure that any CPA the church engages to assist your church with compiling the financial statements has the requisite knowledge of ASNPO financial reporting requirements.
- If your church expects that at some point in the near future that its annual revenue will exceed \$250,000 and therefore that a review will be required (assuming you will not want to have to change CPAs at that time), you may want to confirm with the CPA you are planning to engage to compile the annual financial statements that they are also licensed by the Chartered Professional Accountants – British Columbia to perform review engagements.
- We encourage you to review the CPA Canada publication [Understanding Reports on Financial Statements](#) that explains the important differences between audited, reviewed, and compiled financial statements.

We also encourage you to share this information with your CPA and consult with them about whether a compilation or review would be most appropriate for your church, both now and in the future.

If you have questions about this information, please contact the District Office at 604-372-1922 or [cpdoffice@pacificdistrict.ca](mailto:cpdoffice@pacificdistrict.ca).

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