

Financial Statements: What Level of Review for Your Corporation?

Financial statements are the means by which an organization “describes” their financial status. Often created by an accountant, they follow the Generally Accepted Accounting Principles (GAAP). The GAAP are the rules and standards that accountants follow when they record the finances of a business.

Levels of Financial Reporting

Three reports are commonly used by accountants, each of which provides a different level of assurance to the reader about the information presented:

1. Audited financial statements: undergo a reasonable number of tests to make sure the assets and debts reported are accurate; accountant gives an opinion on the quality of the statements and lets the reader know they “fairly represent” the company’s financial status.
2. Independent review of financial statements: undergoes fewer tests, focusing only on whether the statements are “plausible”—that is, likely to be accurate; accountant does not give an opinion on their quality or accuracy also known as accountant-reviewed financial statements.
3. Financial statement compilation: is simply a compilation of information provided by the company; information undergoes no tests and accountant offers no opinion or assurance; also known as notice-to-reader statements.

Traditionally, audited financial statements have been considered the standard for an organization for reporting their financial status. However, as they have become increasingly expensive, other options are being used, if appropriate.

At a minimum, financial statements need to include \

- a balance sheet, which shows assets and liabilities
- an income statement, which shows revenue and expenditures

The Canada Revenue Agency website has a [section on financial statements](#) that goes into more detail. While focused on registered charities, it provides general information on each of the documents.

All corporations that are also a registered charity need to ensure that they meet the reporting requirements identified by Canada Revenue Agency.

Legislative Requirements

Provincial and federal legislation for corporations may require audited statements, but they may also provide a mechanism to defer this requirement if approved by members of the corporation. Organizations need to be aware of the requirements of the legislation under which they are incorporated and whether there is a mechanism to defer the audit. The bylaws of the organization need to reflect such a mechanism.

Incorporated Ministry Policy and Financial Reporting

To address the increasing cost of audited statements while maintaining a recognized level of financial reporting, the United Church's *Incorporated Ministry Policy* has been revised as of June 2023. Audited statements were a requirement of the annual reporting requirements. The current requirement is as follows:

The incorporated ministry reports the following annually to the supervising regional council:

- membership of its board of directors
- minutes of the annual meeting
- financial statements *prepared according to Generally Accepted Accounting Principles and in compliance with provincial/federal corporate legislation, which, at minimum, includes an income statement and a balance sheet*
- insurance coverage (including naming The United Church of Canada as Additional Insured)

This revision also brings the United Church requirement more in line with what is required by the Canada Revenue Agency and many grant providers. However, every corporation needs to do its own research to determine whether it meets a threshold that requires a higher level of review or to qualify for grants or other sources of funding.

Conclusion

Corporations need to provide financial statements to their members annually. While budget constraints may affect the level of financial reporting, the corporation should try to set aside funds to do an audit of the financial records on a recurring cycle, such as every five years.

To qualify for certain grants, audited statements may be required. It is up to the board of directors to determine whether the cost of audited statements will be outweighed by the possible grants.