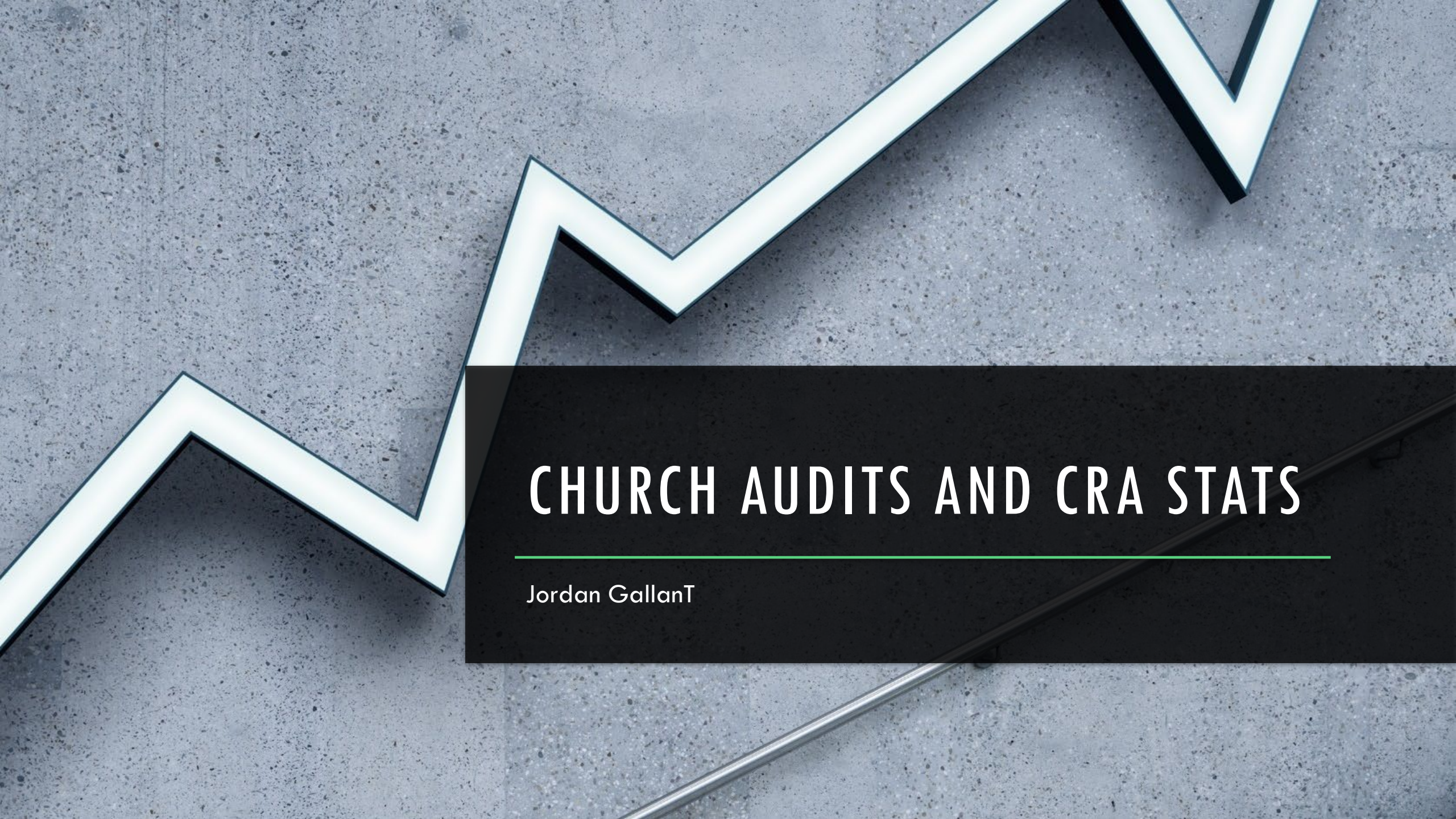
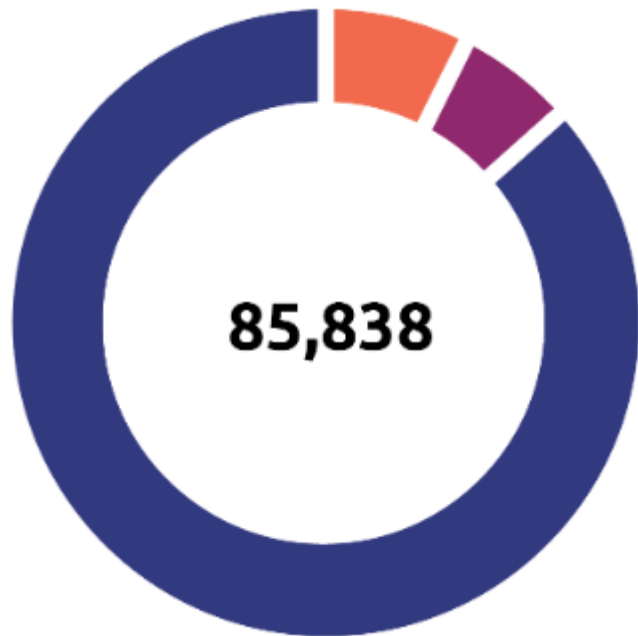




CHURCH AUDITS AND CRA STATS

Jordan GallanT

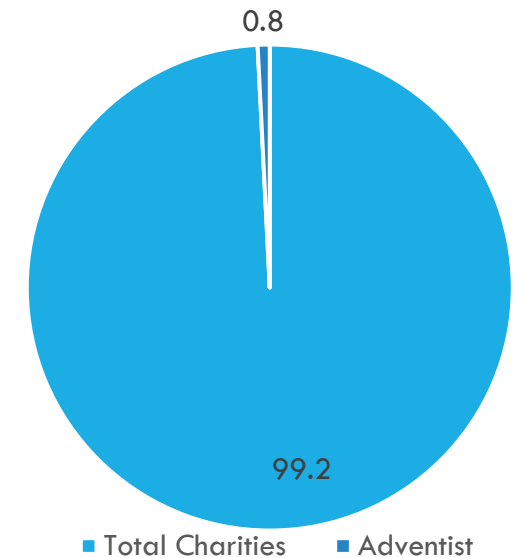
CHARITIES IN CANADA



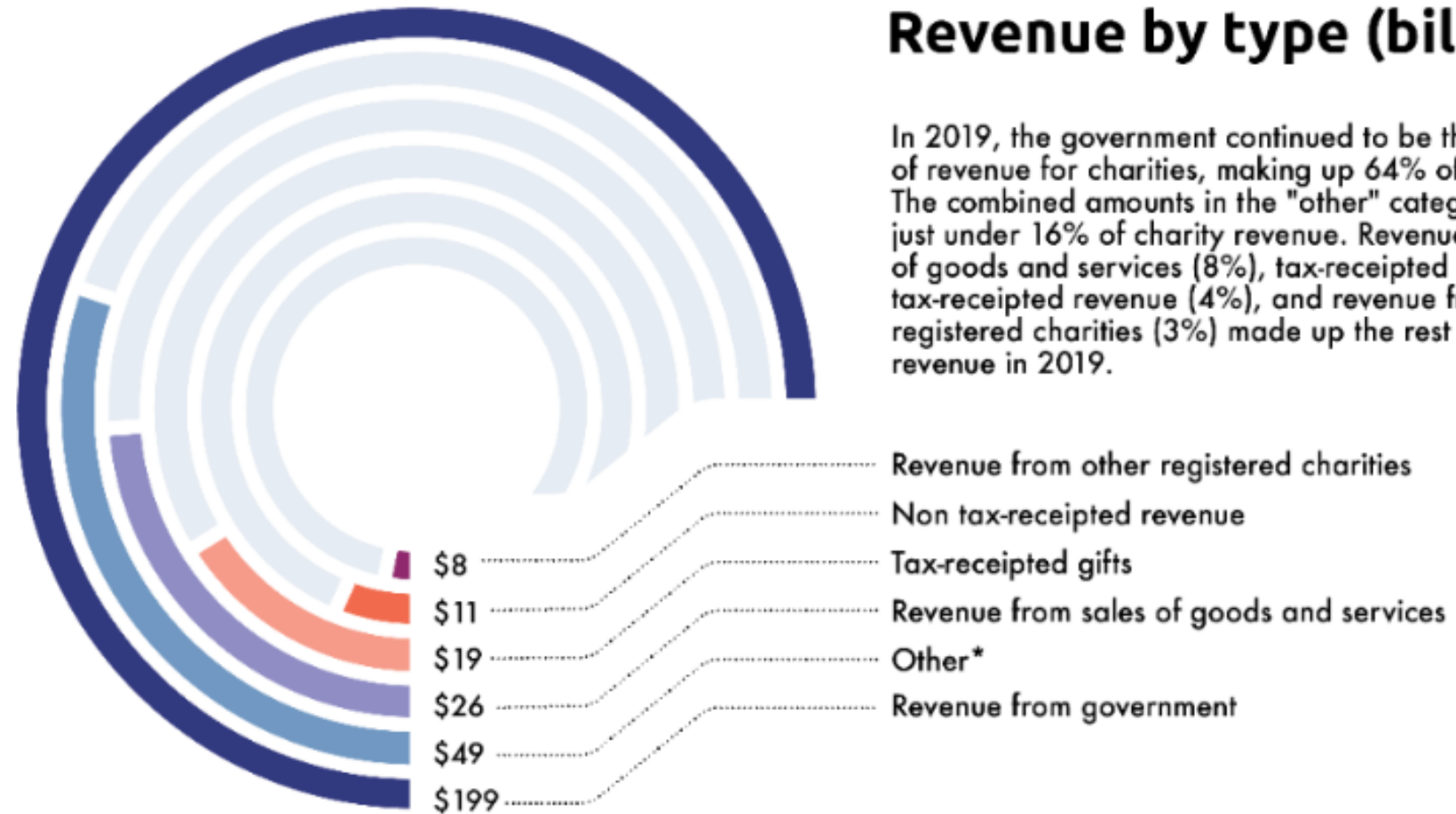
Registered charities by designation

- 74,756 charitable organizations
- 6,118 private foundations
- 4,964 public foundations

Charities VS Canadian Union



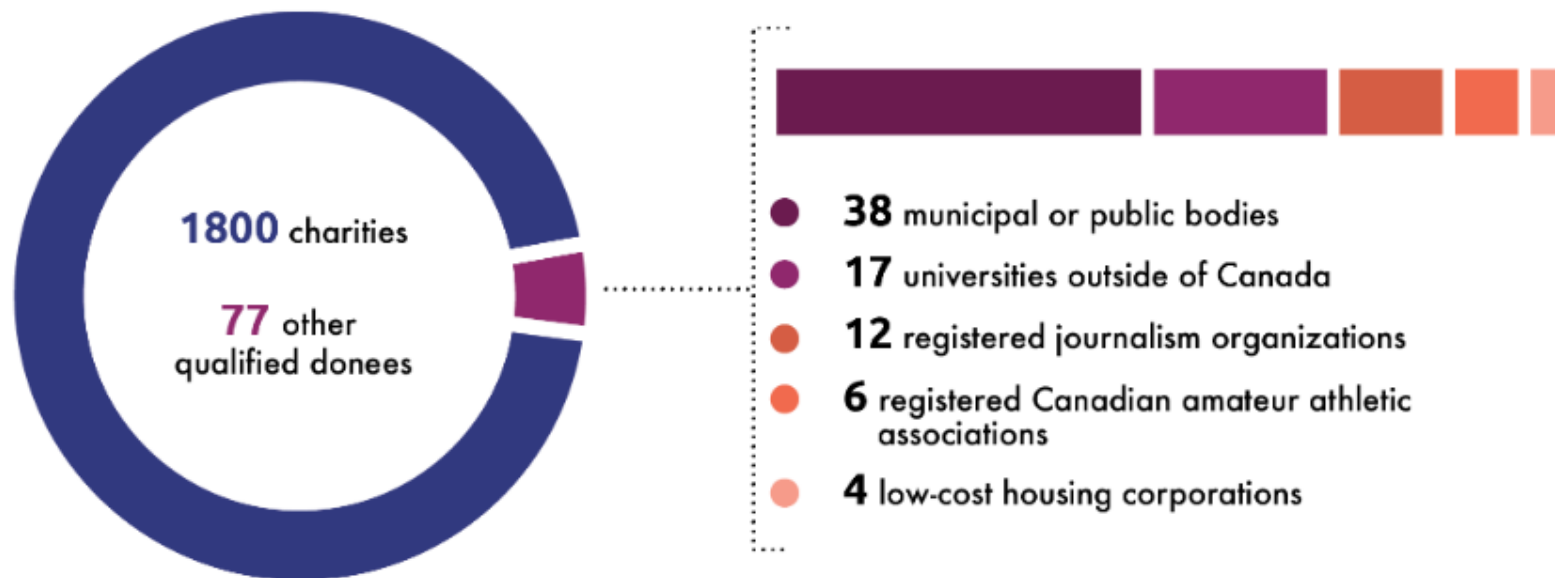
CHARITIES IN CANADA



*such as interest and investment income, proceeds from the disposition of assets, and income from land and building rental

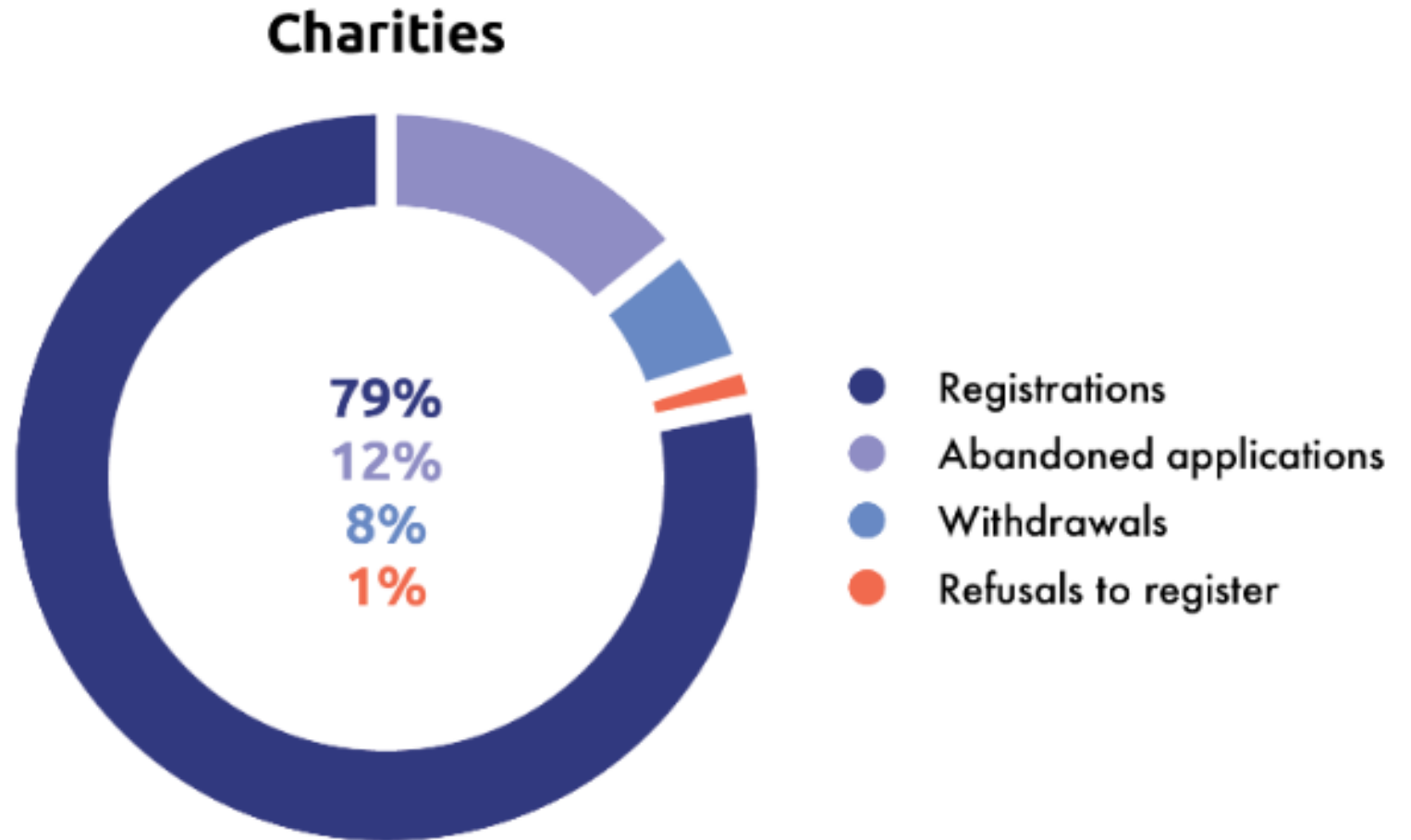
NEW CHARITY APPLICATIONS (2020/2021)

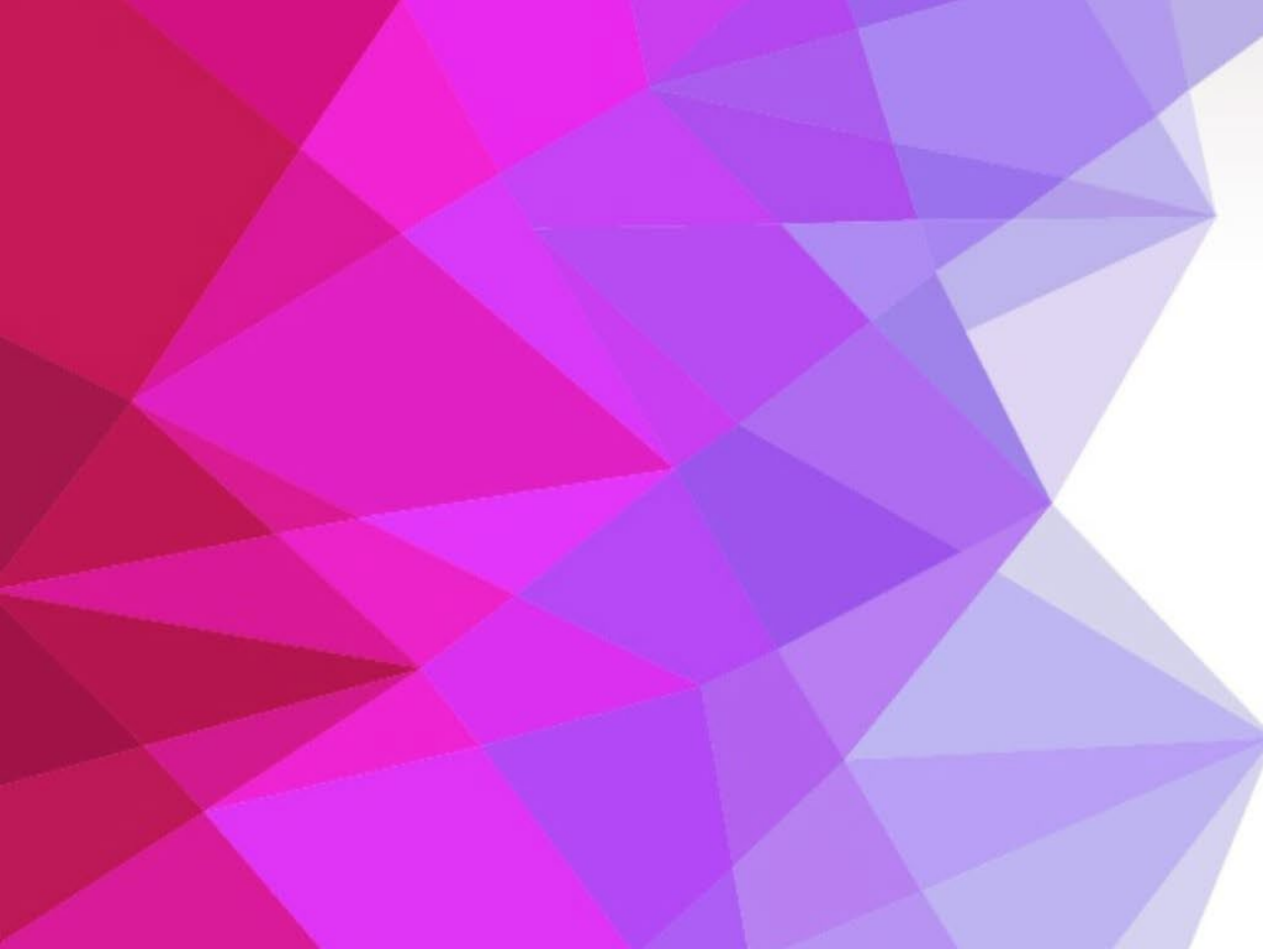
Applications received



NEW CHARITY REGISTRATIONS

Average cost to register a new charity in 2021 was between \$10,000 and \$15,000 and many times charities don't have the resources for to register and operate without status but also without receipting abilities.





WHAT'S REQUIRED FOR A CHURCH AUDIT...

REQUIRED CHURCH DOCUMENTS FOR INTERNAL CHURCH AUDITS



- Board Minutes
- Board Member Listing (AAL Requirement)
- Donation Slips/Tithe Envelopes and e-transfer confirmation printouts (*Loose offering counted by 2*)
- Vendor Invoices and detailed receipts
 - Charitable Receipt stubs/voided receipts
- Bank signatory listing
- Bank Statements/Credit Card Statements
- Benevolent payment listing (*T5007 slips if needed*)
- Deposit books/slips
- Bank Reconciliations (*signed by 2*)
- GST Rebate Forms/Filing Confirmations
- Rental agreements and Insurance confirmations for each tenant (*Annual*)
- Approved Church Budget

**CRA May require more documents to be provided for review during an external audit*



TOP ISSUES FOUND DURING CHURCH AUDITS

TOP ISSUES FOUND DURING CHURCH AUDITS

- Improper Board Makeup
 - Required to have a minimum of 3 AAL and Minimum of 50%, Whichever is GREATER (11 Members, 6 Min AAL, 4 Members, 3 AAL)
- Missing Agency agreements and missing overseas reports
 - CRA requires separate listing of all funds sent/used outside of Canada
 - Each project requires Country/Address, Name of Agent, Employees or Volunteers, Export of goods requires list of items, value and destination
 - If you need assistance while planning a project, make sure to ask BEFORE the project starts.
 - Conference approval BEFORE trips or projects start and signed agency agreement in hand by Church, Agent and Conference.

TOP ISSUES FOUND DURING CHURCH AUDITS

- Year end cut-off for receiving funds in the proper period.
 - Post marked as Dec 31, 2022 whether received January 25, 2023, still can be accepted for 2022.
 - You must keep the envelopes as evidence for mailed in donations to verify postmarks
 - Cheque date cannot be used as donors can post date or predate donations – it is recorded when received, and If post dated then the post dated date is correct
- Gift-in-Kind donations required proper documentation
 - Less than 1,000 can use Marketplace/used sale pricing
 - Greater than 1,000 **STRONGLY RECOMMENDED** to pass the donations through the conference for proper reporting and valuations (Appraisals)
 - Board needs to vote to accept the gift and you should have an appraisal done before accepting the gift or discussing the receipt amount with the donor.
 - Gift needs to be of value/need to the church or be sold within the year if only accepting the gift to sell
 - Organ for the church may not be something the church can accept because it will cost a significant amount to install.
 - House or Vehicle may be something the church wants to accept because you can sell it and use the funds for the church

TOP ISSUES FOUND DURING CHURCH AUDITS

- Approved Charitable activities
 - When the charity was established we were approved with a specific list of approved activities
 - ALL new activities the church is wanting to do require a request to be submitted to CRA
 - Consult the conference to make sure it is an allowable activity for our organizations
 - Just because we are available to help, doesn't mean it necessarily the best use of our resources
 - Funds provided to other charities/qualified donees/government agencies that are specifically set up for situations can provide better supports for those receiving them
- Unapproved expenses or disbursements with improper documentation

CHURCH MINISTRY OR PERSONAL MINISTRY

- Normally, a registered charity is required to have direction and control of funds until spent.
 - This means the church board is responsible for church ministries and not a single individual – otherwise, they are not acting on behalf of the church board and operating under their allowable activity restraints, and the church would not be able to maintain control of the funds
 - New law in 2022 came into effect allowing for a new kind of relationship that is between providing resources to another registered charity and working on an agency agreement.
 - Grants to Grantee
 - It's a collaboration between the Charity and Grantee rather than oversight by the charity
 - Activity does not need to be under the allowable activities
 - Charity is not required to provide ongoing direction/instructions
 - Granting focuses on risk and accountability, rather than the charity's own activities
 - This arrangement however adds the Income Tax Act as part of the requirements and rules that the charity and grantee now have to abide by which adds more risk to both entities
- Consultation with the conference is needed to setup proper guidelines before initiating this kind of relationship

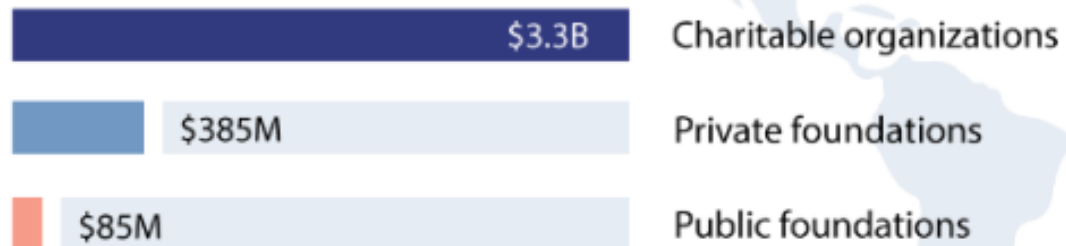
REASON FOR BRINGING THIS UP

IF THE CHARITY IS NOT CARRYING OUT THE PROJECT WITH ITS OWN RESOURCES (STAFF OR VOLUNTEERS APPROVED BY THE BOARD) AND MANAGING THE PROJECT ON THEIR OWN (BUDGET, ITINERARIES, PLANNING, ETC.), A CONTRACT IS REQUIRED.

Activities outside Canada

\$3.8 billion

Charities reported spending approximately \$3.8 billion on activities outside Canada (as per line 200 of the T3010).



OVERSEAS PROJECTS — NEED TO KNOW



Summary: 9 things needed

1. Due Diligence – agent must have adequate skill, knowledge and capacity to carry out project
2. Written Agreements – must be a written agreement with agent per Charities Directorate guidance (*Conf. Template*)
3. Written detailed description of distinct activities – clear and specific project goals that align with our charitable purpose
4. Monitoring and Supervision – appropriate monitoring of project and individuals and project by our charity
5. Ongoing Involvement – ongoing communication and direction on project
6. Separate Funds – funds are required to be held in a separate account by the agent and reconciled when reported on
7. Separate books and records – proper accounting of funds received and spent overseas
8. Periodic payments – periodic payments based on completion of project, not paid upfront
9. Canadian Books and records – copies of all records must be held with the charity

A wide-angle, low-perspective shot of a long, straight road stretching towards the horizon. The road is flanked by dark, low walls or guardrails. The road surface is light-colored with white lane markings. The road leads towards a distant horizon where a range of mountains is visible under a cloudy sky. The water on either side of the road is calm and reflects the sky. The overall tone is muted and atmospheric.

BEST PRACTICES

BEST PRACTICES ON TOP ISSUES FOUND DURING CHURCH AUDITS

- Management Review
 - Proper board review and oversight of operations
 - Board meetings need to approve budget, disbursements, large donations before being received, events, and itineraries/project budgets and agents before out of country projects proceed
 - Document the meetings properly and keep official copies in the files
- Pastors Role
 - Easy ways to [find help](#) managing the “Business” side of the church
 - Bank Reconciliations reviewed by Elder
 - Setup a sub committee for Finance Committee to do monthly meetings and annual Budget Committee to prepare and provide a proposed budget for the board to approve
 - Add additional signers for cheques and find assistant treasurers to help lighten the load on 1 person as well as gives you more people to help
 - Conference Support and External supports available
 - Plan ahead – Move bookkeeping to another church treasurer, district treasurer with assistants at each church in the interim or permanently
 - Join your district accounting and have a team working together – its all cloud based and we can setup proper online storage for churches so everything is available at all times for the treasury team to work

BEST PRACTICES ON TOP ISSUES FOUND DURING CHURCH AUDITS

- Regular meetings with a smaller group (Finance Committee) and quarterly meetings with full board
 - This gives you the necessary monthly review by management and lessens the board meetings as most items are planned ahead
 - Meetings will end up being shorter because the financial and minor issues are dealt with by the smaller group
- At-Arms-Length
 - If you are having issues with At-Arms-Length board members and your board is not proper, lower the number of people on the official board and have invitees if the others still want to contribute to the conversation
 - Smallest board I have helped setup has 5 official board members, and 3 AAL, plus 2 invitees that are spouses
 - The reasonable Board size for Golden is not going to be the same as the board for CIV, but they both have to follow the same required minimums

OTHER ISSUES

Social activities

As a rule, social activities are not charitable at law. However, a registered charity that is established for exclusively charitable purposes can devote some of its resources to social activities as long as:

- **the activities are held to raise funds for its charitable purposes** and are not so frequent to be considered as a primary purpose themselves
- the activities are incidental to the charity's charitable purposes. Generally, a registered charity **should not devote more than 10% of its resources** (funds, personnel, and property) to social activities. *(Usually this is of their general income so think Church Budget)*

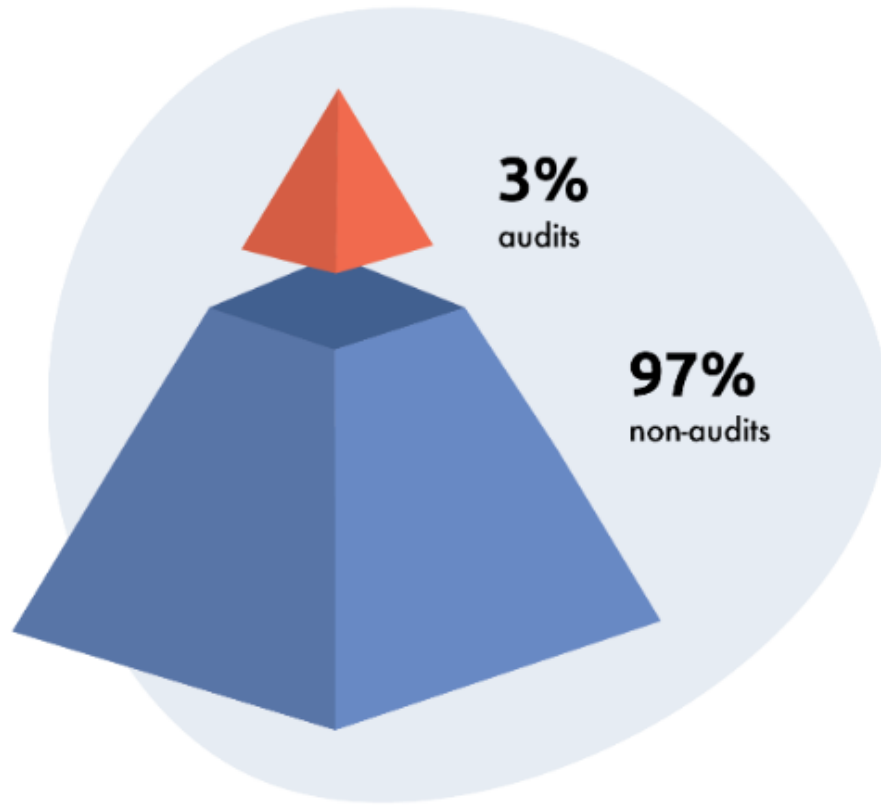
A registered charity that engages in frequent social activities is putting its registered status in jeopardy for failing to devote its resources to charitable activities."

IMPROPER RECEIPTING OF “GIFTS”

A donation receipt can be issued only if there has been a **voluntary transfer of property by way of gift**. Property includes tangible items such as cash, stocks, computers, and sports equipment, etc.

Charities often make mistakes regarding the type of gifts that qualify for a charitable receipt.

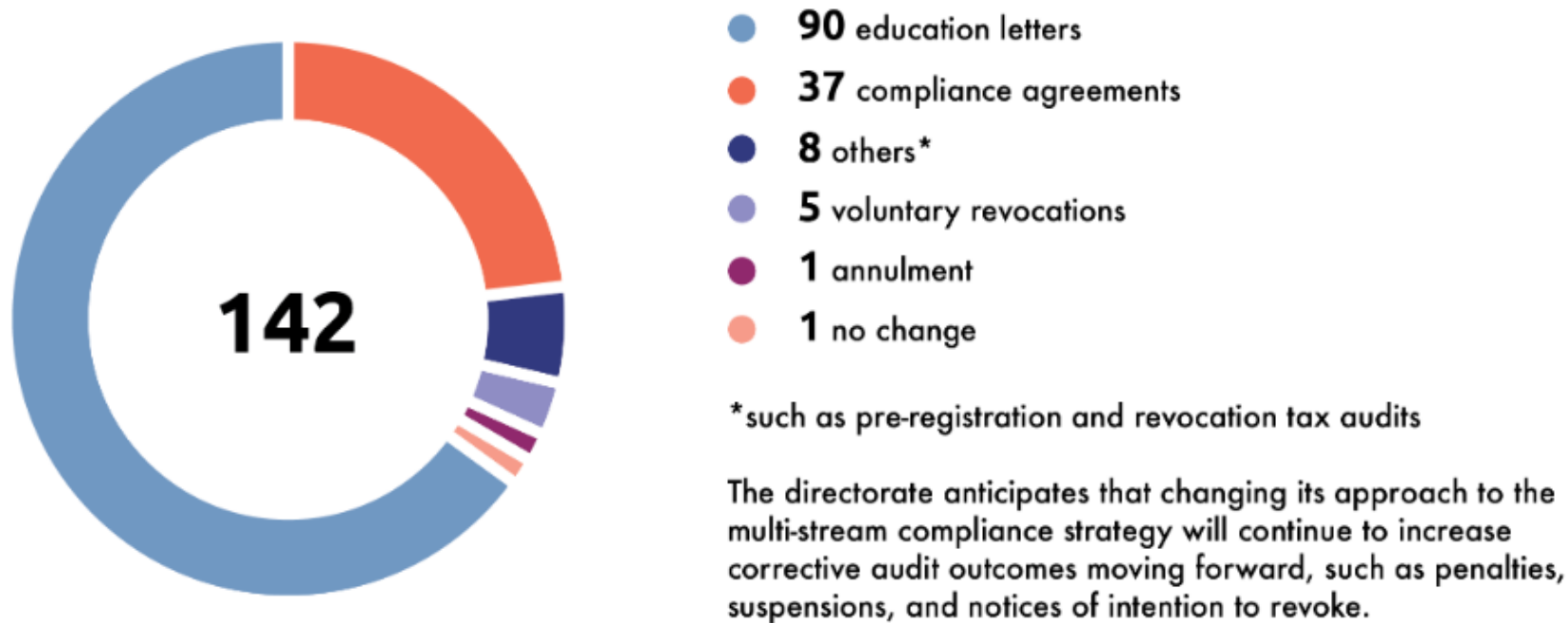
For example, a charity **cannot** issue an official donation receipt for a “gift” of service. Gifts of service (donated time, skills, and effort) provided to a charity are not property, and therefore do not qualify as gifts for the purposes of issuing official donation receipts.



Compliance activities by type

Non-audit activities are aimed at promoting compliance outside of the audit process. They include Charities Education Program visits, letters, phone calls, and requests for information.

Audit outcomes

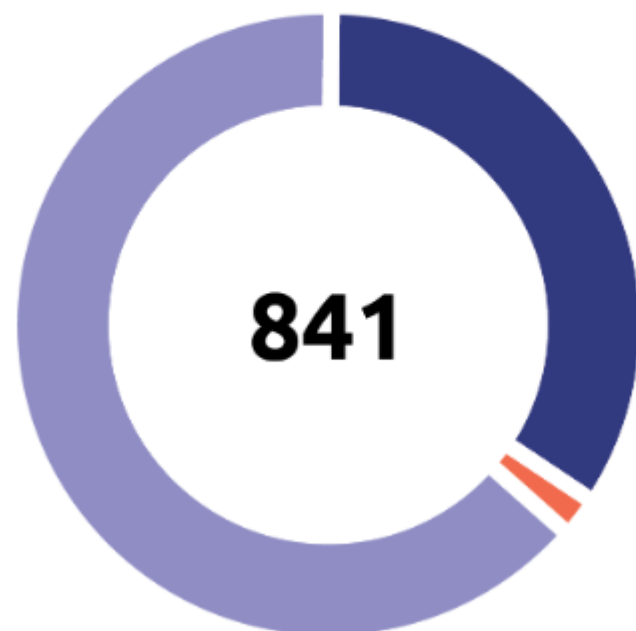


If 3% of total engagements by CRA were Audits, and 142 audit engagements were performed that means about 4,733.33 engagements with charities happened in 2020/2021.

**references from Canada.ca*

If there are **4,733** engagements performed, and we equal roughly **.8%**, (BC=**.15%**) we should have received **37.86** of those audits across Canada and at least **7 in BC**. (We have had 3 in the last 5 years!)

Compliance revocations



- **569** voluntary revocations
- **268** delinquent revocations
- **4** revocations for cause

Voluntary revocations occur at the request of a charity or OQD. Delinquent revocations occur when a charity or OQD fails to file their T3010. Revocations for cause occur as a result of an audit. The low number of revocations for cause from 2020 to 2021 was attributable to the pandemic-related program changes.

Common non-compliance findings

Incomplete
or incorrect
return

Incomplete or
inaccurate
donation receipts

Inadequate books
and records

MOST COMMON REVOCATION REASONS

CRA Lists the most common reasons for forced revocation of charitable status:

1. Not devoting your resources to your approved charitable purposes and activities
 - Unapproved activities or projects outside of approved activities
2. Not keeping adequate books and records
 - Improper storage, improper retention or improper approvals/documentation of approvals for expenditures
3. Not having direction and control of your resources
 - Funds given to persons that do not qualify as either a qualified donee or charity or funds sent out of country without proper documentation and follow-up reporting on funds sent

CRA will send a letter in the mail to notify you of any issues → Send to conference immediately to deal with any/all CRA related issues as the parent charity.

Revocation tax = 100% of assets!

DIRECTED DONATIONS

A registered charity **cannot** issue an official donation receipt if a donor has directed the charity to give the funds to a specified person or family.

In reality, such a gift is made to the person or family and not to the charity.

However, donations subject to a general direction from a donor that the gift be used in a particular program operated by a charity are acceptable, provided that **no benefit accrues to the donor**, the directed gift does not benefit any person not dealing at arms' length with the donor, and decisions regarding utilization of the donation within a program rest with the charity.

RESOURCES

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Should you agree to be a director or board member of a Canadian non-profit or registered charity?

IT IS A BIG DECISION AND THIS COURSE COVERS A NUMBER OF DIFFERENT MATTERS OR ISSUES TO CAREFULLY CONSIDER IN ORDER TO MAKE THE RIGHT DECISION

\$0

ENROLL

