Not-for-profit Organizations and Financial Reporting Requirements

There have been a number of changes in recent years to modernize the laws governing corporations without share capital. These corporations were previously governed by the Corporations Acts in the various jurisdictions, but the laws and regulations created for business and for-profit enterprises were not effective at times for the not-for-profit sector.

In 2011, the new Canada Not-for-Profit Corporations Act (CNCA) came into force to govern the not-for-profit corporations incorporated federally. Ontario created a similar Act, the Ontario Not-for-Profit Corporations Act (ONCA) that received Royal Assent in 2010 and was finally brought into force on October 19, 2021. There is a three-year transition period during which all existing non-for-profit corporations registered in Ontario have to make any necessary changes to their incorporation and other documents to bring them into conformity with ONCA.

There are a number of various legal changes addressed in the new legislation, but we wanted to focus on the section on the financial reporting obligations. A corporation must prepare financial statements each year which comply with the requirements of the Not-for-Profit Act. The financial statements must be prepared in accordance with the Canadian Generally Accepted Accounting Principles (GAAP) as set out in the CPA Canada Handbook.

There are new guidelines introduced in both the CNCA and the ONCA on the level of public accounting assurance required. We have summarized these below in a chart and included some important definitions.

The ONCA classifies not-for-profit corporations into two categories – public benefit corporations and non-public benefit corporations. A corporation is considered to be a public benefit corporation when it is a charitable corporation or when it has received more than $10,000 in revenue from public sources in a single financial year. Public sources include gifts or donations from people who are not members, directors, officers or employees, grants from all levels of government and funds from another corporation that has also received income from public sources. A non-public benefit corporation is a corporation that has received no public funds or less than $10,000 in public funds in each of its previous three fiscal years. The CNCA has the same requirements and classifies these as soliciting and non-soliciting corporations.

The differentiation is important as the government wants to ensure that organizations receiving public funds are sufficiently transparent and accountable for that income.

Private foundations may be considered a non-public benefit corporation, depending on their revenue sources.

As a reminder, all corporations governed by the ONCA and CNCA must send a summary of its annual financial statements or a copy of a document reproducing the required financial information (such as an annual report) to the members not less than 21 days or a prescribed number of days, before the day on which the annual meeting of members is held, or the day on which a resolution in writing is signed by the members to all members who request a copy.

A soliciting corporation incorporated federally must provide its annual financial statements to Corporations Canada not less than 21 days before the annual general meeting of members or without delay in the event that the corporation's members have signed a resolution approving the statements, instead of holding a meeting. The date must also not be later than six months after the corporation's preceding financial year.

Incorporated Federally

Type of Corporation	Gross Annual Revenue per Financial Year	Financial Review Required
Soliciting	$50,000 and less	Public accountant must conduct a review engagement; but members can pass an ordinary resolution to require an audit instead.
Soliciting	$50,001 to $250,000	Public accountant must conduct an audit; but members can pass a special resolution to require a review engagement instead.
Soliciting	more than $250,000	Public accountant must conduct an audit.
Non-Soliciting	$1,000,000 and less	Public accountant must conduct a review engagement; but members can pass an ordinary resolution to require an audit instead.
Non-Soliciting	more than $1,000,000	Public accountant must conduct an audit.

These rules were effective as of October 2011 when the CNCA came into force.

Incorporated in Ontario

Type of Corporation	Gross Annual Revenue per Financial Year	Financial Review Required
Public benefit corporation	$100,000 and less	Public accountant must conduct a review or audit engagement. Approval to waive an audit or review engagement requires an extraordinary resolution (approval of at least 80% of votes cast at a special members meeting)
Public benefit corporation	$100,001 to $500,000	Public accountant must conduct an audit; but members can pass an extraordinary resolution to require a review engagement instead. (approval of at least 80% of votes cast at a special members meeting)
Public benefit corporation	more than $500,000	Public accountant must conduct an audit.
Non-Public Benefit Corporation	$500,000 and less	Public accountant must conduct a review or audit engagement. Approval to waive an audit or review engagement requires an extraordinary resolution (approval of at least 80% of votes cast at a special members meeting)
Non-Public Benefit Corporation	more than $500,000	Public accountant must conduct an audit; but members can pass an extraordinary resolution to require a review engagement instead. (approval of at least 80% of votes cast at a special members meeting)

These rules were effective as of October 19, 2021, when the ONCA came into force.

These rules allow members in Ontario corporations with $100,000 and less in annual revenue to pass an extraordinary resolution (80% approval) to waive both the audit and review engagement requirement.

Before a Board of Directors decides to take advantage of these new rules allowing the organization to be exempt from an audit (presumably to reduce annual professional fees), it is important to remember that an independent, external review of management's financial reporting is an effective tool to fulfill a Board member's governance responsibilities. We would also caution against moving away from an audit if you anticipate your organization's revenues to exceed the minimum thresholds that require an audit in the near future. The costs of transitioning to and from an audit in a short period of time generally exceed the cost savings from moving away from an audit.

If you require any further information or explanation with regard to recent changes for your organization's external financial reporting requirements, please contact your CK advisor.

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