



Julia: Hello everyone and welcome to this webinar on the new financial reporting requirements for small charities.

My name is Julia Fletcher and I am the financial accountant for Charities Services. I will be joined shortly by Aimy Luu Huynh from the XRB to take you through this presentation.

We welcome you to ask questions during the session. You do this by typing your question into the control panel on the right hand side of your screen. We will answer as many questions as we can at the end, and if we don't get to yours today, please look at the frequently asked questions on the XRB website or at the resources on the Charities Services website in the first instance and we will be publishing a collated version of the questions asked today soon after the webinar.

If at any time during the session you experience sound problems—such as echo or feedback—if it persists, you might consider using your phone instead. Just select the telephone option and dial into the audio, enter the access code and Audio PIN when prompted (these are provided right there on the panel).  
Can you see the handouts? These are in the Handouts pane at the base of your desktop

control panel. Why not check them out while you're waiting for us to get under way.

Before we get started on the material we are firstly joined by Jane Pierard, Manager Engagement and Business Improvement at Charities Services and Warren Allen, Chief Executive of the XRB who are going to speak to you briefly on why we are undertaking this process of change, and the importance of the new financial reporting standards for us as a nation.

## Introduction

- ◆ Words from Charities Services and the External Reporting Board (XRB)
- ◆ Why are we doing this?
- ◆ The importance of doing it right



Department of Internal Affairs

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### Jane – Why are we doing this?

Hi I'm Jane,

From Charities Services Perspective, we are so pleased that the new accounting standards for charities are finally here because we truly believe that this is going to enhance the quality of reporting for charities in New Zealand.

Up until now there have been no minimum standards for charities financial reporting and this had meant there has been a really diverse range in the quality of reporting.

The clarity and consistency that the new standards will provide will mean that people reading the Performance Reports of Charities will be able to make better decisions, and as well, we will be able to collect more useful data about the sector as a whole. This is important when making decisions at the Government level about where resources are needed.

The standards will also help to promote better governance internally as charities will be able to clearly articulate why they exist and measure their progress from one year to the next. All of this helps to make New Zealand a better place for New Zealanders and so I am delighted that we are able to share this knowledge with you today.

Thank you for taking the time to learn with us today.

### **Warren – The importance of doing it right**

Good morning/afternoon I'm Warren Allen

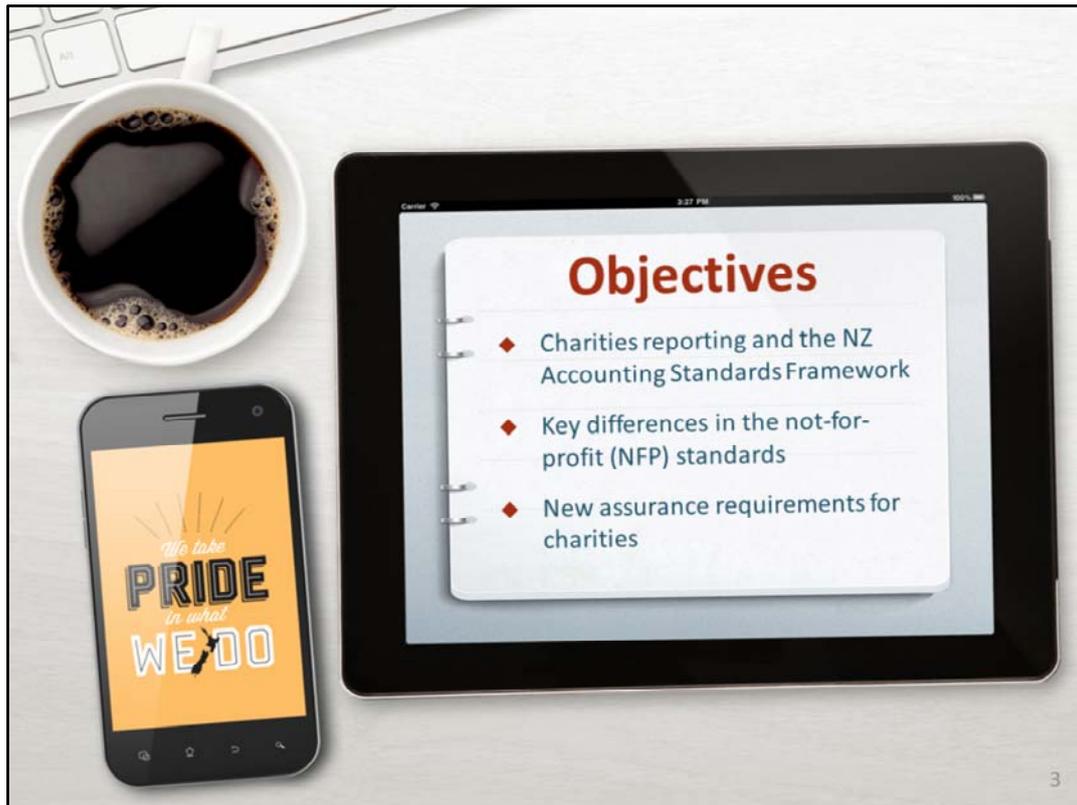
New Zealand's 27,500 charities add significantly to the quality of life in this wonderful country. A considerable percentage of the population donate resources, including money and time, for charitable activities. We have witnessed a mammoth global change by the donating public, requiring higher levels of accountability and transparency, relating to the use of their donated resources. Therefore, to maintain the vibrancy of NZ's charities, the compliance with this new accounting framework is critical.

It may take a couple of years for high levels of compliance to be achieved, but it is now essential to be aware of the change, give it your best attempt, pay attention to the detail and learn from others to improve upon the first year's effort. There are many avenues of help available.

Accountants are vital to ensure the benefits of this change are fully delivered.

I trust this webinar encourages you to embrace the change in charities financial reporting and gives you the opportunity to add real value to the charities you serve.

Thanks for joining us and all the best.....



Thank you very much Jane and Warren. Hopefully that has set the scene for everyone as to why this is such an important change for Charities in New Zealand so now lets get started!

The new accounting standards for Tier 3 and Tier 4 entities have been written with the intention that both accountants and non-accountants will be able to follow them.

Therefore the main objectives of this webinar will be to ensure that you come away with a high level understanding of what has changed and what to look out for. We are not going to go into detail of every type of transaction because you will be able to find out a lot of the specific answers you need by reading the standards.

So our presentation will include

- a broad overview of the standards framework within New Zealand and the way changes for charities are part of the financial reporting review that been underway during the past few years

- The key aspects of the not for profit reporting standards that are different from older reporting standards.
- And we'll go over the new assurance requirements for charities as well.

I'm now going to pass over to Aimy from the External Reporting Board, who is going explain to us how we have arrived at this point and how it all fits together.

## New Legal Framework

- Financial Reporting Act 2013
- Financial Reporting (Amendments to other enactments) Act 2013
  - Amendments to Charities Act 2005 – section 42A
- All registered charities follow XRB standards



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- Good morning/afternoon/evening everyone. Thank you for taking the time to join us. It's great to have so many of you watching our webinar. My name is Aimy Luu Huynh, I'm the Project Manager of Accounting Standards at the External Reporting Board.

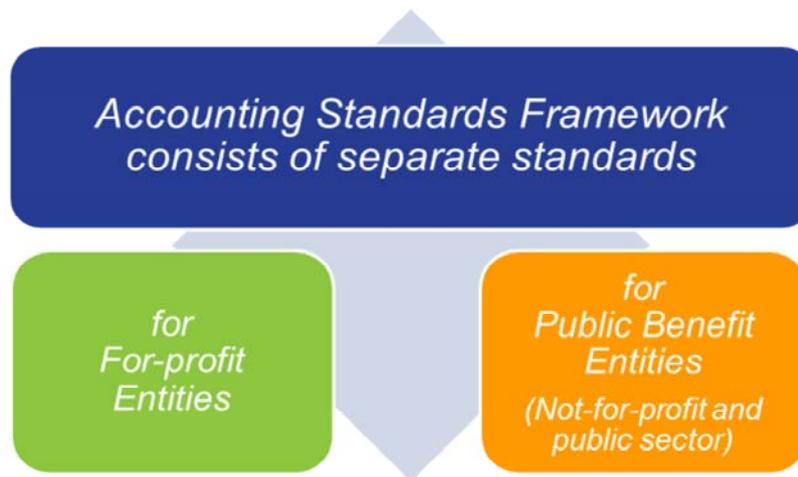
### **Financial Reporting Act 2013**

- The FRA 2013 was updated at the end of 2013. All you need to know about this Act is that it gives the External Reporting Board or XRB for short the mandate to set financial reporting standards for a number of for-profit and not-for-profit entities including registered charities.

### **Financial Reporting (Amendments to Other Enactments) Act 2013**

- The other significant Act that was passed was the Financial Reporting (Amendments to Other Enactments) Act 2013. This Act amends a raft of legislation such as the Charities Act 2005, the effect of which is to specify which entities need to prepare financial statements in accordance with the XRB standards. In your case, all registered charities have to apply our standards for periods beginning on or after 1 April 2015. This is in section 42A of the Charities Act 2005

# New Accounting Standards Framework



- In New Zealand, we now have a multi-sector, multi-standards framework – this means we have different standards for for-profit and public benefit entities.
- **Public benefit entities** or PBEs for short is defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders (definition from XRB A1).
- A for-profit entity is an entity that is not a PBE.
- You are watching this webinar because the entity you are involved with is a registered charity and by definition is likely to be a public benefit entity.

# Not-For-Profit Framework

Tier	Entities	Standards
1	<ul style="list-style-type: none"><li>• “Public Accountability”</li><li>• Total expenses &gt;\$30m</li></ul>	Full PBE Standards
2	Total operating expenses ≤\$30m	PBE Standards with disclosure concessions
3	Total operating expenses ≤\$2m	Simple Format Standard (accrual)
4	Total operating payments <\$125k (where law allows)	Simple Format Standard (cash)

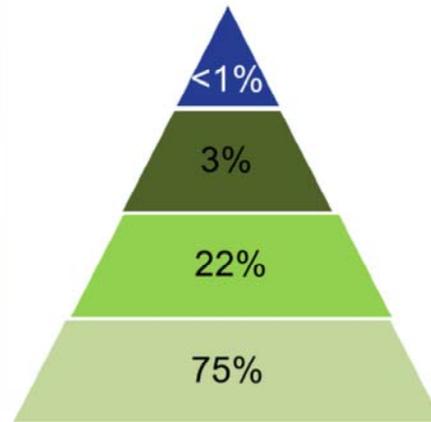


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- There are 4 tiers of reporting requirements – The tier structure was developed to match the benefits with the cost of preparing general purpose financial reports. As you go down the tier, the smaller the entity, the obligations become simpler and thus the compliance cost is reduced.
- The standard is different based on the tier that you are in.
- This webinar is for charities with operating expenses less than or equal to \$2m. This is either Tier 3 or Tier 4.

# Not-For-Profit Framework

Tier	Charities
1	Total operating expenses >\$30m
2	Total operating expenses ≤\$30m
3	Total operating expenses ≤\$2m
4	Total operating payments <\$125k

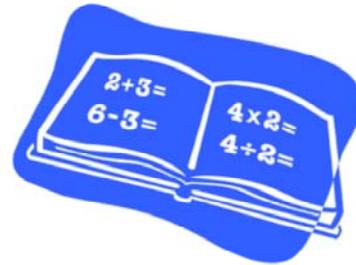


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- Not all registered charities are the same. Approx. 97% of registered charities have operating expenses less than \$2m.
- We developed the four tier accounting standards framework largely based on the size of the charity.
- Size here is based on the charity's operating expenses or operating payments.

# Simple Format Reporting Standards

- Single, standalone standards
- Less technical language
- Simpler requirements
- Common transactions



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- The Tier 3 and Tier 4 standards are much simpler than the Tier 1 and Tier 2 Standards. And considerably smaller in size.
- They were written with non-accountants in mind so it is less technical than the accounting standards you may have read in the past.
- Tier 1 and Tier 2 requirements comprise 38 standards and 1 Authoritative Notice, being the PBE Conceptual *Framework*. In total these standards are over a 1000 pages long.
- Compare this with Tier 3 Standard – the requirements are approx. 40 pages (includes transitional arrangements but excludes front cover, copyright, contents, illustrative examples, glossary, basis for conclusions and history of amendments)
- The Tier 4 Standard is even smaller with approx. 18 pages of requirements (includes transitional arrangements but excludes front cover, copyright, contents, illustrative examples, glossary and BC)

## Common transactions

- The Tier 3 and Tier 4 Standards are based on research of the transactions NFP entities commonly enter into. We didn't develop these standards without the proper research.
- If you elect to report under a particular tier, then you need to apply the requirements of the whole standard. You can't pick and choose requirements from different standards.

- We have two sets of PBE standards. One for NFPs and one for public sector entities. If you are a public sector entity, then you will need to apply the public sector version. If you are both a public sector entity and a registered charity, please speak to the Office of the Auditor General on the appropriate version to apply.

## Tier 3 Criteria

- **Less than or equal to \$2 million operating expenses**
  - Day to day expenses e.g. grant payments, depreciation
  - Excludes capital payments e.g. physical assets or investments
- **Accrual-based accounting**
  - Transactions earned or incurred
  - Includes debtors and creditors



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- The criteria for Tier 3 is total operating expenses less than or equal to \$2m.
- Total expenses is determined for the whole charity or the group where there is a group for financial reporting purposes. In very simple terms a group is where there is a main charity like a head office that “controls” another charity or entity for financial reporting purposes. This other charity could be a branch.
- Control here is a very specialised term used in financial reporting. If you think you could be in this situation, please seek professional advice.
- To qualify for Tier 3, total operating expenditure for the whole charity or group is less than or equal to \$2M

### **Operating Expenses include:**

- These are your day to day expenses. These expenses include costs of fundraising, or grants made by the charity.
- Expenses also include reductions in the value of property, plant and equipment called depreciation expense.
- It’s all outflows from the charity during the year other than capital outflows or purchases.
- Examples of capital outflows, are repayments of borrowings and the purchase of fixed assets. These are not operating expenses

### **Accrual based accounting**

- Tier 3 charities apply accrual accounting.
- Accrual accounting is where transactions are recognised when they are earned or incurred. Adjustments are made for the year end debtors and creditors.
- Accrual accounting includes depreciation if you have fixed assets.

## Tier 4 Criteria

- **Under \$125,000 operating payments**
  - Day to day expenses
  - Excludes capital payments e.g. physical assets or investments
- **Cash-based accounting**
  - Cash paid and received
  - Excludes depreciation



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- The Tier 4 criteria is total operating payments less than \$125,000.
- Operating payments are your day to day expense payments.
- Operating payments do not include capital payments.
  - Example 1 – Charity A pays \$10,000 for a motor vehicle – this is a capital payment, do NOT include in operating payments total.
  - Example 2 – Charity B invests \$5,000 in a term deposit – this is NOT included in operating payments – this is just a transfer of money to another bank account.

### **Cash accounting**

- Tier 4 charities apply cash accounting.
- Under the cash basis of accounting, transactions and other events are recorded when cash is received or paid.
- Cash accounting does not include depreciation because this is not a cash activity. If you currently do depreciation or accrual accounting and want to continue to do so, you can elect up to Tier 3 and apply accrual accounting. You always have the choice to opt up to a higher tier of reporting.

# Overview

## Tier 3

- SFR Standard: accrual (PBE SFR-A (NFP))
- EG A5: template & guidance notes
- Spreadsheet & PDF templates (optional)

## Tier 4

- SFR Standard: cash (PBE SFR-C (NFP))
- EG A6: template & guidance notes
- Spreadsheet & PDF templates (optional)



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### Tier 3

#### **PBE SFR-A (NFP)**

- The official title of the Tier 3 standard is Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit). Quite a mouth full. For simplicity we will refer to this as the Tier 3 Standard.
- **Accrual basis**
  - The Tier 3 standard is an accrual basis standard. Revenue and expenses are recorded when they are earned or incurred rather than when cash is received or paid.
  - Financial statements prepared under the accrual basis include adjustments for the timing of the revenue or expenses.
  - They include items such as: debtors (money owed to entity), creditors and accruals (money owed by entity), and depreciation.
  - Financial statements prepared in this manner more fairly represent the financial performance and financial position of the entity.

#### **EG A5 – Explanatory Guide – Optional template and associated guidance notes**

- The explanatory guide is written in more plain language than the Standard and designed to be even more user friendly.
- The guidance notes include:
  - tips and highlight important pieces of information;
  - examples; and
  - cross references back to the standard.

### **Spreadsheet & PDF templates**

- We have also developed templates. The templates are optional, but if completed correctly will meet the requirements of the standard.
- The templates are designed to cover most circumstances but not everything.
- If there are other matters that are significant and necessary to include for users of your performance report, which are not provided for in the template, then further details should be given by means of additional notes.
- If there are things in the template that are not applicable to your charity then they can be removed.
- The templates are in PDF and Excel format and available from both Charities Services and our website to download.

### **Tier 4**

#### **PBE SFR-C (NFP)**

- The Tier 4 standard's official title is Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit). For simplicity we will refer to this as the Tier 4 Standard.
- **Cash Basis**
  - This Standard is under the cash basis of accounting, transactions and other events are recorded in the Performance Report only when cash is received or paid.
  - For most entities this will involve taking their cash book and summarising the receipts and payments for the financial year.
- The Tier 4 Standard also has an explanatory guide, EG A6 and optional templates.
- If you find the standard a bit daunting then start with the templates and the explanatory guide. And then refer to the standard if both these documents are not clear

# Further Information

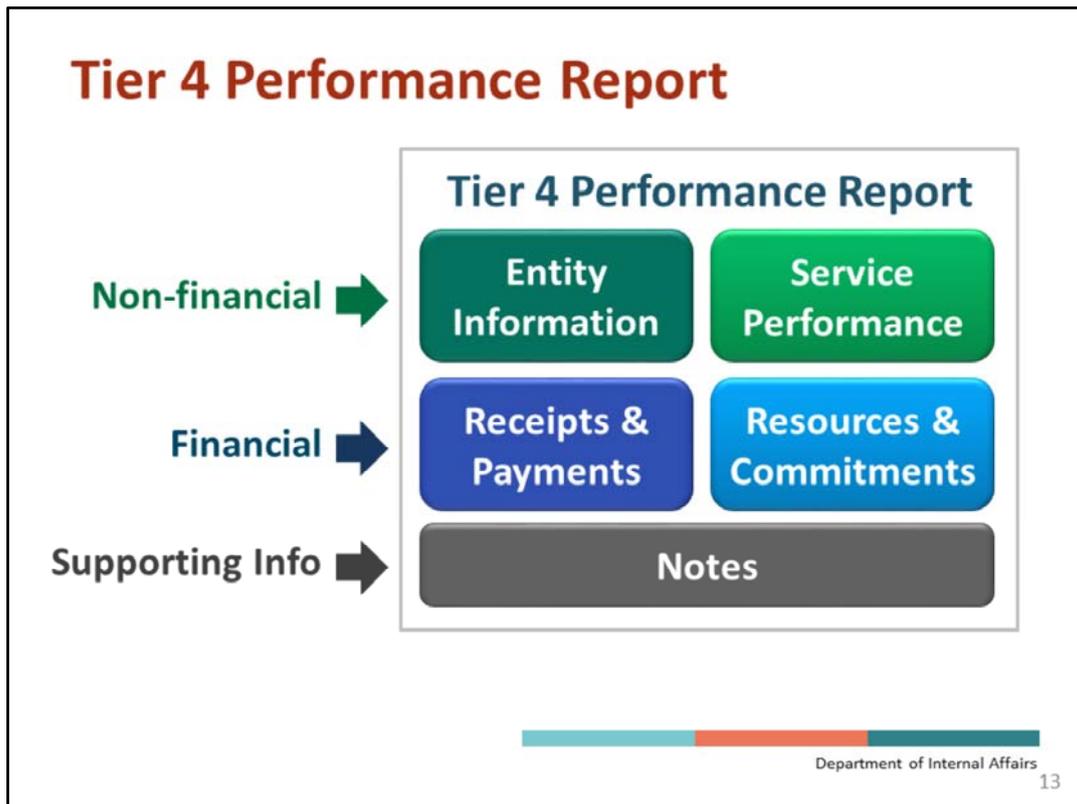
The screenshot shows the XRB website homepage. At the top, there is a green banner with the website URL [www.xrb.govt.nz](http://www.xrb.govt.nz) and the email address [enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz). Below this is the XRB logo and the text "EXTERNAL REPORTING BOARD". A navigation menu includes "HOME", "ABOUT", "MEETINGS", "REPORTING STRATEGY", "ACCOUNTING STANDARDS", "ASSURANCE STANDARDS", "RESEARCH", and "NEWS & EVENTS". A search bar is also present.

The main content area features a header with the text: "Establishing accounting and assurance standards that engender confidence, assist international competitiveness, and enhance accountability." Below this is a "Welcome" section with a brief description of the XRB's role. There are several call-to-action buttons: "Sign up here" for the XRB Brief newsletter, "Register here" for a webinar, and "Subscribe here" for regular communications.

On the right side, there is a "Quicklinks" section. A red box highlights the "NFP Tier 3 & Tier 4" link, and a blue arrow points to it from the right. Other links in the Quicklinks section include "SMEs Know Your Standards", "FP For Profit Accounting Standards", "PS Public Sector PSAs Accounting Standards", "NFP Not for Profit Accounting Standards", "A Auditing & Assurance Standards", "NFP Tier 2 Templates", "NFP Tier 4 Templates", "NFP Tier 1 & Tier 2 FAQs", and "NFP Tier 3 & Tier 4 FAQs".

The XRB logo is visible in the bottom left corner, and the number "12" is in the bottom right corner.

- This is our website – you have your own purple button on our homepage. Clicking on the purple button will get you to all the standards, explanatory guides and templates for all the tiers for the NFPs
- Rather than clicking on the purple button and scrolling to find what you need. To make it easier for you, we have quick links to the Tier 3 and 4 templates on the right hand side. This is where the arrow is pointing to.
- When you get to the templates, above these are the explanatory guides and standards.
- We also have quick links to the FAQs
- I will now pass you back to Julia who will go through some the requirements of the Tier 3 and 4 standards



Thanks very much Aimy.

Let's start by having a closer look at what makes up the Performance Report

So what does the Tier 4 Performance Report actually include?

You can see from the diagram above there are several parts to the report.

it includes both non-financial and financial information, as well as some further supporting information when that is helpful.

Overall it is designed to show simply:

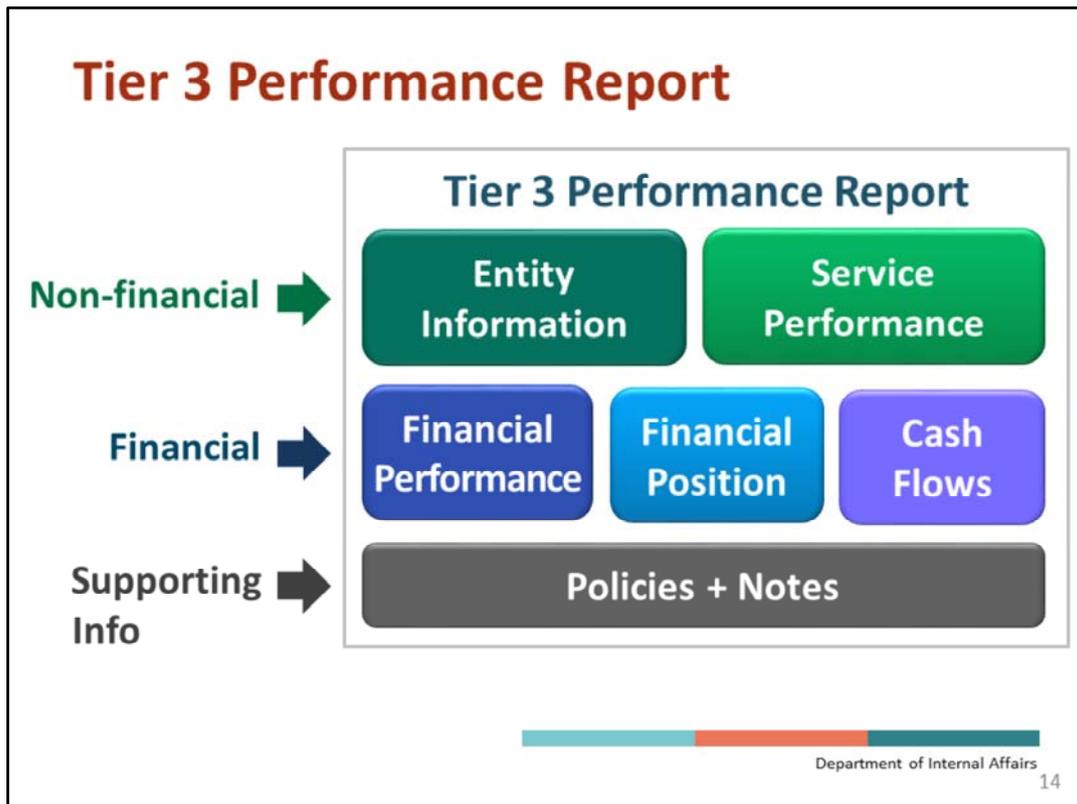
Why the charity exists; what it has been busy doing; and how the money came in and out.

Under the Tier 4 standard, the profit or loss and the cash flow statement are combined and this becomes the Statement of Receipts

and Payments. This literally shows all the transactions in and out of the bank account divided between operational and capital transactions. This is then reconciled to the bank balance.

Instead of the balance sheet, you have a Statement of Resources and Commitments. The key thing to note with this is that it is simply a list of the **significant things** the charity owns or owes. It does not include any retained earnings and does not need to balance. The reason the standard was written without a balance sheet was that the feedback gained during the consultation process indicated that for very small charities, the information could be hard to gather and was not necessary for a cash basis of accounting.

The notes to the Performance Report include the accounting policies which include stating the standard that has been followed and the GST treatment.



You can see that the Tier 3 Performance Report is similar but different

Again, it is designed to tell the whole story of the organisation

So it includes non-financial info to set the scene & provide the context

Followed by financial statements

The financial statements are different because Tier 3 uses accrual accounting and there is also a cash flow statement included. To be clear, this shows the cash movements in and out of the organisation over the past year, it is not a projection of cash flows or a budget for the future.

Essentially Tier 3 is also designed to show simply:

Why the charity exists; what it has been busy doing; and how the money came in and out.

