



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

**CHARITIES
SERVICES**
Ngā Ratonga Kaupapa Atawhai

Making doing good easier

Proposal for an improved Tier 3 Standard

August 2022



Jordan Hoerara

Regional Capability Advisor
Charities Services

Your XRB presenters today:

- Jamie Cattell – Project Manager, Accounting Standards
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- Carly Berry – Project Manager, Accounting Standards
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Logistics



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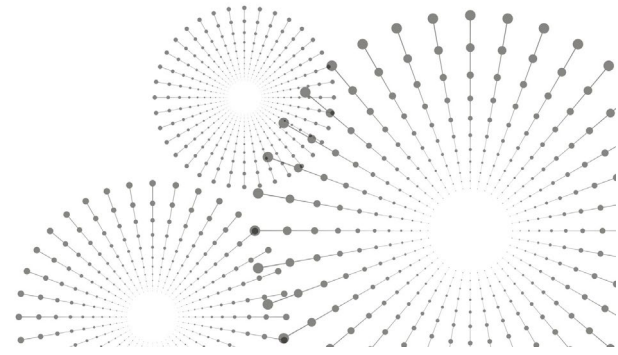
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Our Vision

New Zealand prospers through effective decision making for resource allocation informed by high-quality, credible, integrated reporting.



XRB Accounting Standards Team



The Accounting Standards staff team supports the New Zealand Accounting Standards Board of the XRB in its role of developing and issuing accounting standards for New Zealand.

Your presenters today:

- Carly Berry – Project Manager, Accounting Standards (carly.berry@xrb.govt.nz)
 - Jamie Cattell – Project Manager, Accounting Standards (jamie.cattell@xrb.govt.nz)
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New Zealand Reporting Framework



Two key questions

Who has to report?

Set in legislation



Te Tari Taiwhenua
Internal Affairs

What information gets reported?

Set in standards



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PBE Reporting Tiers



Tier	Entities	Standards
1	<ul style="list-style-type: none">• “Public Accountability” or• Total expenses >\$30m	Full PBE Standards – Based on IPSAS
2	<ul style="list-style-type: none">• Total expenses ≤\$30m	PBE Standards with reduced disclosure requirements (RDR)
3	<ul style="list-style-type: none">• Total expenses ≤\$2m	Simple Format Reporting – Accrual
4	<ul style="list-style-type: none">• Total operating payments <\$140k (where law allows)	Simple Format Reporting – Cash

Tier 3 and Tier 4

- Simplified reporting for not-for-profit entities with annual expenses less than \$2m
- 95% of registered charities use either Tier 3 or Tier 4

Development approach

- Single standard for each Tier
- Less technical language
- Simple requirements
- Focus on common transactions

Accompanying Resources

- Template performance reports
- Guidance notes

The 2020 review

What we heard

Tier 3 works well for many people but there are areas that needed improvement.

Our proposals

- Clearer service performance reporting requirements
- A new way to account for revenue (incl grants)
- Refreshing the required categories
- Revaluing your assets in the Tier 3 Standard
- Plans for using accumulated funds



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- Proposed Tier 3 Improvements



Improving the Tier 3 Standard

Service performance reporting

What we heard

Many preparers find the service performance reporting requirements difficult to understand

What we are proposing

Amendments to:

- Remove the terms “outcomes” and “outputs”
- Add more guidance on choosing what to report and how

Clearer service performance reporting requirements



Provides information about **why** the entity exists, **what it hopes to achieve**, and **what it has done** during the year toward achieving its objectives

Medium to long term
objectives

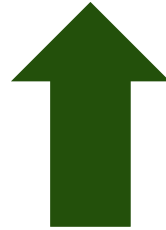
Significant **activities** and
achievements during the
year

Quantify the significant
activities and
achievements where
possible

Clearer service performance reporting requirements



Objectives
i.e., what the entity is aiming to achieve over the medium to long term



More specific than the charity's purpose
- Which is usually general

BUT



Not just a restatement of your activities
Should focus on **why** you did those activities

Clearer service performance reporting requirements



Reporting on the entity's significant activities and achievements

- Required to select a mix of measures and/or descriptions (based on the readers)
- The measures and/or descriptions may be:
 - Quantitative; or
 - Qualitative measures;
 - Qualitative descriptions.
- Measures and descriptions should be:
 - Relevant and faithful
 - Understandable
 - Timely and comparable
 - Verifiable
- Not required to report everything
- Tables, graphs and images can be used

A new way to account for revenue

What we heard

Many respondents wanted more flexibility to report revenue over time as it is spent.

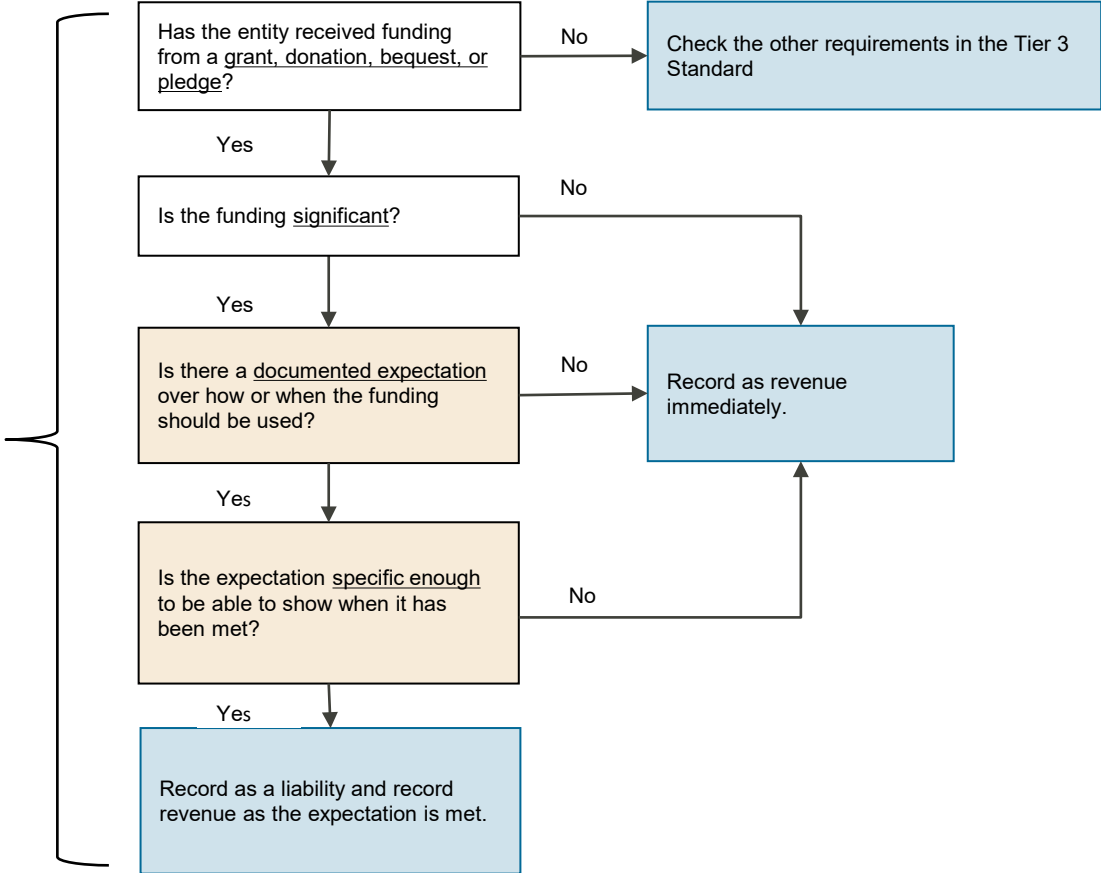
E.g. when funding is received for a specific purpose

What we are proposing

- To remove the “use or return” condition
- Delay reporting revenue to align with expectations over use
 - Report revenue as expectations are met

A new way to account for revenue

Overview of the new way to account for revenue



A new way to account for revenue

Expectations

Documented expectation

- Funder expectation – not internal
- Typically documented in writing – but other methods possible

Specific enough

- Whether the funder intends to monitor use doesn't matter
- Expectation could be:
 - an action; or
 - a time period

Examples

- Purchase of a vehicle
- Constructing a building
- Delivering goods or services
- Running a specific programme or activity
- Using funds to cover general costs over two years

Refreshing the required categories

What we heard

Some find using the required categories difficult

Some still presenting full lists of all revenue and expenses separately

What we are proposing

- Increase the number of required categories
- No more splitting in the statement of financial performance
- Continue to allow splitting in the notes (optional)

Refreshing the required categories

Categories for reporting revenue

Current categories	Proposed categories
Donations, fundraising, and other similar revenue	Donations, koha, bequests, and other fundraising activities
	Capital grants
	Other grants (Excluding service delivery grants/contracts)
Revenue from providing goods or services	Funding from service delivery grants/contracts (Government)
	Funding from service delivery grants/contracts (non-Government)
	Sale of goods or services (commercial activities)
Fees, subscriptions and other revenue from members	Membership fees or subscriptions
Interest, dividends and other investment revenue	Interest or dividends, and other investment revenue
	Other revenue

New revenue categories

- Sale of goods or services (commercial activities)
- Service delivery grants/contracts
- Capital grants

Refreshing the required categories

Categories for reporting expenses

Current categories	Proposed categories
Expenses related to public fundraising	Expenses related to public fundraising
Volunteer and employee related costs	Employee remuneration
	Volunteer and other employee expenses
Costs related to providing goods and services	Expenses related to the sale of goods or services (commercial activities)
	Other expenses related to the delivery of entity objectives
Grants and donation made	Grants and donations made
	Other expenses

New expense categories

- Expenses related to the sale of goods or services (commercial activities)
- Other expenses related to the delivery of entity objectives

Refreshing the required categories

Revenue and expenses related to commercial activities

Definition

“Activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity’s stated purposes”

Involves judgement

- Primary purpose of the activity
- Entity intention
 - Scale of activity
 - Frequency

If not commercial?

Treat as fundraising activities

Example

- An entity with a bakery
versus
- An entity that occasionally has a cake stand at the local fair

Refreshing the required categories

Service delivery grants/contracts

Definition

“Grants received from the government or other agencies that are in substance a contract for the delivery of goods or services”

Involves judgement

- How closely related to the good/service?
- Timing of payments

Separate based on source

- Government
- Non-government

Example

- A grant received 100 hours of counselling services.
- A contract where a charity is paid \$10 per school lunch provided

Revaluing your assets in Tier 3

What we heard

Many wanted us to add other choices for valuing assets to the Tier 3 Standard

What we are proposing

- Adding the choice to the Tier 3 Standard to revalue:
 - Property, plant, and equipment (land and buildings)
 - Investment property
 - Publicly traded financial investments (such as shares and bonds)
- Some simplifications
 - Retain option to use rateable value for land and buildings

Revaluing your assets in Tier 3

Property, plant and equipment

Value

Based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable value may be used

What assets?

All types of property, plant and equipment assets

But

- Must revalue all assets of that type
- Will need to continue revaluing
- Revaluations will need to be regular

Reporting

Report as a separate reserve within accumulated funds unless the value becomes lower than the original cost

- Value increases won't affect your surplus

Revaluing your assets in Tier 3

Investment property

Definition

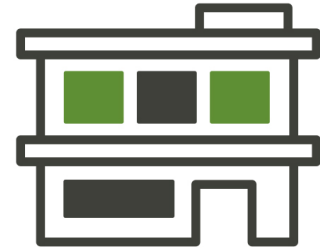
A type of asset which is “held primarily by the entity to generate rental income or for capital gains rather than for use in the entity’s ordinary activities”

Account for in the same way as property, plant and equipment

- Cost; or
- Revaluation

Reporting

- Report as part of accumulated funds unless the value becomes lower than the original cost



Revaluing your assets in Tier 3

Financial Investments

Value

Current market value
(for example NZX-quoted price at year end)

What assets?

Investments that are publicly traded. For example:

- Shares
- Bonds
- Units in managed funds

Reporting

Changes in value are reported in the statement of financial performance

Note showing how the investments' value has changed during the year

Plans for using accumulated funds

What we heard

Readers want more information on charities' plans for their accumulated funds

What we are proposing

- New note in the performance report which:
 - describes how the charity manages its accumulated funds; and
 - describes the charity's plans for using or retaining its accumulated funds

Plans for using accumulated funds

Disclosures

“Information that enables users of its financial statements to evaluate the entity’s objectives, policies, and processes for managing its accumulated funds”

“A **brief** description of the entity’s **general** plans for applying its accumulated funds towards its stated purposes”

Information which **may** be reported:

- Specific projects
- How much of the accumulated funds are restricted
- Intended distributions to other charities

Not intended to:

- Include commercially sensitive information
- Need excessive detail
- Be a promise

Next steps

Submit via
www.xrb.govt.nz

Also on our website:

- The full consultation documents
- At a Glance documents
- Exposure drafts

Consultation closes 30 September 2022



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Questions?





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Ngā mihi nui ki a koutou!

